FINANCIAL TIMES

Bosnia
Rebuilding the state
Page 11

Virtual reality
Designs on the Internet
Technology, Page 8

Russian elections
Zyuganov woos the dispossessed
Page 3

About turns
Defending Europe
Book Reviews, Page 10

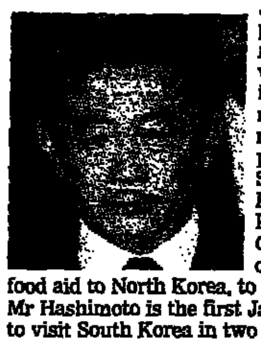
World Business Newspaper — THURSDAY JUNE 13 1996

News Corp to set up satellite TV service in Japan

News Corporation, the international media group headed by Rupert Murdoch, has joined the rush of satellite TV entrepreneurs seeking to break into the Japanese market, Mr Murdoch said in Tokyo that he planned to invest $300m-$400m to set up a multi-channel digital satellite broadcasting service, to be called JSkyB, in Japan within the next two years. Page 13; Observer, Page 11; Lex, Page 12

Germany looks to curb deficits: Theo Waigel, Germany's finance minister, said the federal government and the states should take a firmer grip on their finances to ensure public deficits stayed below the Maastricht treaty limit of 3 per cent of gross domestic product. Page 12; Editorial Comment, Page 11; Waigel's finance drive, Page 2

Japan and South Korea to hold summit



Japan and South Korea plan to hold a summit next week, opening the way for an improvement in what have been frosty relations. Ryutaro Hashimoto (left), Japan's prime minister, will meet South Korean president Kim Young-sam at the Korean resort island of Cheju to discuss a range of bilateral issues from food aid to North Korea, to fishing rights and sport. Mr Hashimoto is the first Japanese prime minister to visit South Korea in two years. Page 12

Mercedes-Benz sales rise 6%: Sales at Mercedes-Benz, the German automotive manufacturer, rose about 6 per cent to an estimated DM38bn ($24.73bn) in the first half-year, said Helmut Werner, chairman. Page 14

Neste, Finland's biggest industrial group, reported a collapse in profits in the first four months of the year, prompting a 5 per cent fall in the company's shares on the Helsinki bourse. Page 14

Boost for Ulster generator plant: F.G. Wilson, the subsidiary of Emerson Electric of the US, is to set up a $113m joint venture in Northern Ireland with Caterpillar, the US construction and mining machinery group, to make diesel generating sets for the power industry. Page 7

Chip pact talks to re-open in Washington: The US and Japan will re-open talks in Washington next week in a renewed effort to patch up their differences over trade in semiconductors. Page 4

US pledges continued Bosnia support: US defence secretary William Perry said he would support the continued deployment of US troops in Bosnia next year if they were needed to prevent war from flaring up again. Page 12; Uphill track to recovery, Page 11

New Senate majority leader elected: The Republican leadership in the US Senate took on a more ideological edge with the election of Senator Trent Lott of Mississippi as the new majority leader, succeeding Bob Dole, who bowed out of Congress on Tuesday. Page 5

Action urged on child labour: The US has proposed the use of a labelling system by the clothing industry and other sectors where child labour is a problem, in a move designed to increase the effectiveness of consumer boycotts. Page 4

Russian rivals trade insults: Russian political rivals accused each other of plotting to disrupt Sunday's presidential elections after a bomb explosion in Moscow killed four and injured 12. Page 2

Daewoo eyes Thomson Multimedia: Daewoo of South Korea wants to buy Thomson Multimedia, the consumer electronics part of the Thomson group which the French government is to privatise later this year. Page 13

National Westminster Bank of the UK has agreed to sell control of its Spanish retail banking subsidiary to Spain's Banco Sabadell. Page 13

Astra drops Losec legal action: Astra, the fast-growing Swedish pharmaceuticals company, is to drop its legal action against Byk Gulden of Germany over alleged patent infringements of Astra's blockbuster anti-ulcer drug Losec. Page 13

Indian PM wins vote of confidence: H.D. Deve Gowda, India's prime minister, sailed through a vote of confidence in parliament to secure his 12-day-old United Front coalition government. Page 6; Lex, Page 12

Man kills himself in court explosion: A man involved in a property dispute with his former wife blew himself up with a stick of dynamite and injured a lawyer in a court in Eskilstuna, Sweden.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5696.37	(+27.71)
NASDAQ Composite	1239.23	(+8.47)
Europe and Far East		
CAC40	2137.29	(-0.21)
DAX	2566.88	(+22.53)
FT-SE 100	3769.2	(+13.5)
Nikkei	22,104.80	(+287.18)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.249%
Long Bond	86
Yield	7.135%

OTHER RATES

UK: 3-mo Interbank	5⅞%	(5⅞%)
UK: 10 yr Gilt	96 7/32	(96 2/32)
France: 10 yr OAT	105.21	(105.26)
Germany: 10 yr Bund	97.88	(97.93)
Japan: 10 yr JGB	98.8543	(98.3259)

NORTH SEA OIL (Argus)

Brent Dated	$18.23	(18.27)

GOLD

New York: Comex		
(Aug)	$386.8	(386.9)
London:		
close	$384.5	(384.2)

DOLLAR

New York: lunchtime		
£	1.53575	
DM	1.53475	
FFr	5.20535	
SFr	1.26305	
Y	109.435	
London:		
£	1.5345	(1.5355)
DM	1.5363	(same)
FFr	5.2083	(5.2041)
SFr	1.265	(1.2665)
Y	109.475	(109.465)

STERLING

DM	2.3575	(2.3589)
Tokyo $ close:	Y 109.45	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh18	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils650	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

US judges stop enforcement of act in victory for free speech campaign

Internet obscenity curb blocked

By Louise Kehoe in San Francisco

A US panel of judges yesterday ruled that a law limiting distribution of pornography on the Internet was unconstitutional. The court issued a temporary order halting enforcement of the act.

The decision represents a clear victory for advocates of free speech and civil liberties groups seeking to prevent government regulation of the Internet, a global web of computer networks that links an estimated 58m computer users.

The panel of three judges in Philadelphia granted a preliminary injunction against enforcement of portions of the Communications Decency Act, which was signed into law by President Bill Clinton in February.

The ruling sets the stage either for a trial on whether the act should be permanently blocked, or a direct appeal to the Supreme Court. The Justice Department has yet to say how it will proceed with the case.

The law was aimed at preventing distribution of "indecent" or "patently offensive" material to children over computer networks. In a unanimous decision the court ruled, however, that there is no effective way for online services and access providers to determine the ages of individual users.

Moreover, the judges issued strong statements in defence of freedom of speech on the Internet. "The Internet may fairly be regarded as a never-ending worldwide conversation," US District Judge Stewart Dalzell said in his opinion. "The government may not, through the CDA, interrupt that conversation. As the most participatory form of mass speech yet developed, the Internet deserves the highest protection from governmental intrusion."

Awaiting virtual call ......Page 8
Big guy embraces Net ......Page 10

The court allowed to stand prohibitions against obscenity and child pornography, both of which are excluded from the US constitutional protection of free speech and were not challenged by opponents of the act.

The preliminary injunction was issued in response to a lawsuit filed by the American Civil Liberties Union on behalf of 20 individuals and organisations, including free-speech advocates and others representing the computer online industry, libraries and publishers.

"This is a decision of inestimable historic importance," said Ms Marjorie Heins, a member of the legal team who argued the case on behalf of the ACLU.

"It's only a handful of times in a century that a court is called upon to decide what the rules will be in a new communications medium," said Mr Christopher Hansen, another ACLU lawyer. "Today's decision reaffirms that, no matter what the medium, the message should be protected by the First Amendment."

Ms Lori Fena, executive director of the Electronic Frontier Foundation, a civil liberties group that was one of the plaintiffs in the case, said: "We are delighted that the court has gone beyond striking down the law, and has stated positively what constitutional principles must govern any attempt to regulate the most democratic mass medium the world has ever seen."

Canada to retaliate against US over Cuba trade act

By Bernard Simon in Toronto

Canada will today unveil retaliatory measures against the US Helms-Burton Act, the contentious law that opens the way for legal action against non-US companies doing business in Cuba.

The steps to be announced by Mr Arthur Eggleton, the trade minister, will make Canada the first country to act against the US legislation, which has provoked international protests since being passed in March.

Under the Helms-Burton Act, US companies whose Cuban assets were confiscated after the 1959 communist revolution can take court action to obtain compensation from non-US companies that are now using those assets.

It also allows US immigration authorities to block the entry into the US of executives of accused companies and their families.

The Canadian action would allow affected Canadian businesses to target assets held in Canada by those bringing complaints in the US courts. It would also clear the way for Canadian companies to countersue against damages awarded by a US court.

In recent years, Canadian companies have been among the most active foreign investors in Cuba, committing more than $250m (£163m) by last year, notably in the mining, tourism and energy sectors. Two-way trade grew by 54 per cent last year to C$576m.

Toronto-based Sherritt International, which has a 50 per cent stake in a large nickel operation in Cuba, was one of three foreign companies notified by Washington this month that they were possible targets for action under the Helms-Burton law – officially the Cuba Liberty and Democratic Solidarity Act.

Ottawa already has legislation allowing Canadian companies, including subsidiaries of US companies, to ignore US court rulings with extraterritorial implications and the new measures would extend the scope of this law.

Canada has lodged a protest against Helms-Burton under the disputes procedure of the North American Free Trade Agreement (Nafta).

US and Canadian officials have held two rounds of talks and if they fail to resolve the matter, then it can be referred to the Nafta disputes panel.

Mexico's president, Mr Ernesto Zedillo, who is on an official visit to Canada, made a pointed reference to the US legislation in an address to Parliament in Ottawa on Tuesday.

Without mentioning the US by name, he criticised governments that undermine international law by seeking to force other countries to restrict their trade relations.

Clinton calls for racial healing

President Bill Clinton knelt in prayer yesterday during a visit to Greeleyville, South Carolina, where the Mt Zion African Methodist Episcopal Church was destroyed, one of 31 churches hit in a series of arson attacks across nine Southern states in the past 18 months. 'Our heart must be purged of any temptation to go back to the kind of divisions that cost us so dearly,' the president said, referring to the South's bitter racist history. Flanking the president are Bishop John Adams (left) and Pastor Terrance Mackey. Reuter

Levi Strauss to pay a year's bonus if cash target is met

By Diane Summers and Richard Donkin in London

Levi Strauss, the US company which makes one of the world's leading brands of jeans, aims to spend $760m giving every member of its global workforce a year's extra pay.

Each of the group's 37,000 employees – from senior managers to cleaners – will receive the cash bonus in 2002 if a cash flow target is met.

The payout could be even higher than $760m if the target, considered by unions and management to be readily achievable, is exceeded. The scale of the deal is thought to be unique.

Levi Strauss is a privately owned company, founded in 1850, with its headquarters in San Francisco. It was recently valued at more than $13bn and had sales last year of $6.7bn (£4.4bn). Its chairman, Robert Haas, is a great-great-grandnephew of the company founder, Levi Strauss, who was a Bavarian-born immigrant to the US.

Mr Haas said that ever since the company was founded it had sought to conduct business "in ways that are consistent with our values". These included personal and financial recognition for those who contributed to the company's success.

Union leaders in the US and UK are holding up Levi Strauss' scheme as a model for other employers to follow. Mr Des Farrell, clothing and textile national secretary of the GMB union in the UK, where Levi Strauss has two factories and a finishing centre in Scotland, described the promised payment as "groundbreaking".

It was a practical example of social partnership, with employer and union working together, he said. "Many other companies, rather than paying out large dividends to their shareholders, should be looking at this kind of scheme."

Mr Jay Mazur, president of Unite, the US textile union, said it was "consistent with the times" that employees should share in profits.

Independent pay specialists emphasised that it might be possible for employees to gain an extra year's salary over a six-year period through share schemes, but a simple cash payment on this scale was highly unusual. Mr John Gilbert, a director of Monks Partnership, the pay consultant, said: "It really is clean and simple, and beautifully packaged."

Levi Strauss returned to private ownership in 1985. Earlier this year, it completed a financial restructuring, including the repurchase of shares held by employees and the ending of an employee stock ownership plan. These shares accounted for only about 4 per cent of all outstanding shares and ownership is now concentrated in a few family hands.

The cash flow target which will trigger the extra year's salary is $7.58bn (£4.9bn) by the end of the 2001 financial year.

About 28,000 of the company's employees are in North America, with about 7,000 in Europe, 2,000 in Asia-Pacific and a small workforce in Latin America.

UK meal exports tripled in year after home ban

By Norma Cohen and Deborah Hargreaves in London

British exports of meal made from animal remains tripled in the year after the UK banned its use for cattle and sheep feed in the domestic market because of fears over "mad cow" disease, or BSE, figures reveal today.

The UK Ministry of Agriculture yesterday confirmed that much of the increase in exports went to neighbouring European Union countries. But it claimed the shipments were made with the full knowledge of the European Commission.

The disclosure is nevertheless likely to sour relations with Britain's EU partners even further and lead to more allegations that the UK government did not take the BSE problem seriously.

"The European Commission was happy with what we were doing," the ministry said yesterday. When meat and bone meal were banned from cattle feed in the UK in mid-1988, there was no scientific proof that BSE could spread to other animal species such as pigs or chickens.

But in 1990, pathology studies in the UK suggested there were some circumstances under which BSE could be transmitted across species. "We were feeding it to our own pigs and poultry," the ministry said. On March 29 1996, the UK banned the use of meat and bone meal in feeds for pigs, poultry, horses and fish.

A National Farmers Union official yesterday confirmed that British farmers had not seen any reason not to export feed that was unsaleable in the domestic market.

"It was thought proper that the feed could be exported since there was no ban on export at the time," he said. "If we had had concerns about it we would have expressed them to the government at the time." It is not clear whether these exports were labelled so that buyers could understand that Britain had banned its use in the domestic market for cattle and sheep feed.

An article in today's Nature magazine cites data supplied by

Background, Page 7
Continued on Page 12

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

هكذا من الاصل

SPD and unions attack scheme aimed at saving DM17bn

Bonn agrees heavy cut in jobless costs

By Judy Dempsey in Bonn

The German cabinet yesterday agreed sweeping changes to unemployment benefits, aimed at making savings of DM17bn ($11bn) by 2000.

The changes provoked sharp criticism from the opposition Social Democratic party (SPD) and the trade unions. The unions are planning large demonstrations in Bonn next Saturday to protest against the government's existing savings plans.

Mr Norbert Blüm, the labour minister, said the measures would introduce more flexibility at the work place, encourage people to take more part-time work and create more jobs, although he would not say how many. They would also reduce the burden paid by employers in a bid to increase competitiveness, the main thrust of the measures.

The changes to the 26-year-old law, scheduled take effect next year if passed by parliament, include increasing the minimum age for those entitled to receive Germany's generous unemployment pay for an extended period. Under the current system, those made unemployed at 42 are entitled to 18 months' full unemployment pay. If they have dependants, that pay is 67 per cent of previous income, while for single people it is 60 per cent.

The government wants to raise the minimum age to 45 with a sliding scale that would provide full unemployment pay for longer periods, the older a person becomes unemployed. A 57-year-old would receive 32 months' full unemployment pay while anyone aged below 45 would receive just one year's full benefit and the much less generous unemployment assistance afterwards.

The idea behind the measure is to keep as many people as possible in work and contributing to the social welfare insurance system, so reducing the government's bill for the unemployed. However, it will have the effect of making it more difficult for younger people to enter the job market.

Government proposals would also make it more difficult for an unemployed person to turn down a job offer, oblige many part-time workers to pay social security charges and would count redundancy payments against unemployment benefit. In most cases, 75 per cent of a person's redundancy payment would be pooled with unemployment benefit entitlement, a move which could give employers some choice in determining the size of redundancy payments.

Meanwhile, the failure of government plans to clamp down on the use of low-paid foreign workers on German building sites led yesterday to a vote by the country's two main building industry associations to quit the association of German employers' federations (BDA).

The protest action came after representatives of other industries in the BDA blocked the so-called posted workers bill that would have set minimum wages of DM18.60 an hour on building sites in western Germany and DM17.11 in eastern Germany.

German retail sales in April were a nominal 3 per cent and a real 2 per cent higher than in April last year, fuelling hopes that the domestic economy might be recovering from its first quarter weakness.

However, official figures showing that turnover, adjusted for seasonal factors and the different number of days in the month, was unchanged in nominal terms and a real 1 per cent higher than in March also indicated that keen pricing contributed to the sales growth.

The federal statistics office also reported a slight increase in Germany's visible trade surplus to DM6.2bn ($4.02bn) in March from DM5.8bn in March last year. According to preliminary estimates, the current account, which measures trade in goods, services and certain transfers, recorded a deficit of DM1.4bn in the month against a surplus of DM100m in March 1995.

The office reported that pan-German inflation was 1.7 per cent year-on-year in May against 1.5 per cent the month before. In the west, inflation rose to 1.5 per cent from 1.2 per cent while in the east it rose to 2.8 per cent in May from 2.7 per cent in April.

Germany's Chancellor Helmut Kohl (right) welcomes Spain's Prime Minister Jose Maria Aznar in Bonn yesterday. Talks will centre on the European Union and the Florence summit. Madrid's budget-cutting economic programme had been "extraordinarily well received in Bonn," Mr Aznar said. Relations were "cordial and frank" and bilateral relations were "excellent", he added AP

Albania faces pressure to re-run poll

By Kevin Done, East Europe Correspondent

The Albanian government led by President Sali Berisha will come under renewed pressure from the west to re-run a substantial part of last month's controversial election in the wake of the official report by international observers released last night.

The report from the Organisation for Security and Co-operation in Europe claims that the conduct of the election violated 32 of 79 articles in Albania's own election law covering the pre-election period and the election day itself.

It also failed to meet five of the nine election-related commitments made by OSCE member countries.

According to the official results President Berisha's ruling Democratic party won a landslide 67.8 per cent of the vote in the first round of the election on May 26.

Including the second round on June 2 the Democratic Party claimed 101 of the 115 directly elected seats.

The main Albanian opposition parties pulled out of the election several hours before polling closed in the first round, alleging widespread ballot rigging, intimidation and violence, and they have said that they will boycott the new parliament.

Under pressure from the west President Berisha has conceded that the election will be re-run in 17 constituences on Sunday.

The report from the OSCE's Office for Democratic Institutions and Human Rights calls for the setting up of a permanent and independent central election commission "to create confidence in the administration of the election process among all parties and the electorate".

The report claims that the commissions that were supposed to oversee the individual polling station were "multi-party commissions in name only, but not in substance." In practice they were ruled by the government-appointed officials.

Nearly all the polling stations were not set up according to the law. "Observers noted a consistent pattern whereby the government-appointed members played the key role in processing voters and administering the elction."

The OSCE report raises serious doubts about the accuracy of the voter register.

"In many cases the number of ballots cast exceeded the number of signatures on the voter register. During the count observers noted the changing of the registers to bring them into line with the number of ballots in the ballot box," says the report.

Observer teams reported people voting with several ballot papers and in many cases family voting was a rule and not an exception.

The OSCE report says that there was a large police presence both inside and outside polling stations. This was particularly the case in the two cities of Berat and Lushnje where "police appeared to be playing an active role in the running of polling stations. In some cases the police even took part in the counting process."

Berisha: violated his own poll laws

Athens stocks fall as 'magnate flees'

By Kerin Hope in Athens

Prices plunged on the Athens stock exchange yesterday on reports that Mr Dimitris Hatzis, a prominent Greek shipowner who controlled two listed companies, had declared himself bankrupt and fled abroad.

The general index dropped by only 1.21 per cent but prices of smaller companies similar to Globe and Cosmos, a food-processor and a textile manufacturer which had links with Mr Hatzis' shipping business, tumbled by some 5-8 per cent.

Greek bankers said Mr Hatzis' shipping operations, which underpinned his onshore business activities, appeared to have collapsed. Two of his four dry cargo vessels have been confiscated, while the other two are under repair.

The stock exchange suspended trading in both companies' shares after Mr Manolis Xanthakis, the bourse president, received a letter from Mr Hatzis reportedly saying that he was leaving Greece with only $1,000 in his pocket.

The unexpected collapse of Mr Hatzis' companies underlines weaknesses in bourse supervision and Greece's auditing standards. Both Globe and Cosmos, its subsidiary, published 1995 balance sheets two weeks ago showing profits of Dr141m ($582,000) and Dr299m respectively, but carrying an auditors' note that some assets had not been verified.

Mr Hatzis, a board member of SEB, the Greek industrialists' federation, took over Globe, a dormant company on the stock exchange, in 1991 as a vehicle for ventures to produce luxury foods in Greece. Globe exported foie gras and high-quality olive oil to France and the US.

He acquired Cosmos to diversify into textiles, buying several bankrupt manufacturers being sold off by the industry ministry under Greece's privatisation programme.

The collapse of Globe and Cosmos has highlighted the difficulties shipowners face in managing other types of business.

One banker said: "Globe and Cosmos expanded much too rapidly, thanks to ready access to funds from the shipping side of the business. The market for specialised cargo carriers has deteriorated recently, so revenues for financing onshore activity dried up."

EUROPEAN NEWS DIGEST

Hardline French union loses role

Force Ouvrière, one of the French unions which was most aggressive in calling for the industrial action that disrupted the country last year, yesterday lost control of the Caisse Nationale d'Assurance Maladie, the national health care agency, for the first time since 1967.

Mr Jean-Marie Spaeth of the CFDT, a moderate union which was less critical of the government's proposed social security reforms, took the presidency of the agency after FO failed to nominate a candidate in succession to Mr Jean-Claude Mallet.

The CFDT also seems set to retake in September the presidency of Unedic, the state unemployment insurance agency, which is headed alternately by a union and the CNPF, the French employers' association.

The move leaves FO as an outsider to the social security system, which it had helped co-ordinate since the 1950s, and places it alongside the communist-linked CGT. Mr Marc Blondel, FO's leader, will hold a press conference today on his position. *Andrew Jack, Paris*

Lisbon fails to lift sell-off limit

An attempt by Portugal's minority socialist government to abolish restrictions on European Union investors in its privatisation programme has been defeated in parliament. Portugal has been under pressure from the European Commission to reform a 1989 law allowing the government to set case-by-case limits on foreign acquisitions of companies being privatised.

The socialists accept that the legislation contravenes regulations on the free movement of capital within the EU. However, the bill to abolish the restrictions was opposed by opposition parties on the left and right and was defeated by four votes.

After the vote, the government said it did not intend to use the option provided under existing law to limit EU investment in its privatisation programme, which is forecast to raise Es380bn ($2.4bn) this year. Mr António Guterres, the prime minister, is expected to ask Mr Jacques Santer, the Commission president, for more time to resolve the issue when they meet in Lisbon today. *Peter Wise, Lisbon*

France told to change MEP poll

France should switch to electing its 87 members of the European Parliament by regional rather than national lists, in order to give its MEPs a closer link with their electorate, an all-party commission recommended yesterday.

Under the current, widely criticised system French MEPs are elected proportionally from national party lists and therefore have no territorial base. Because they do not feel accountable to any particular constituency, French MEPs have one of the worst attendance records at the parliament, in spite of their government's insistence on keeping the parliament based at Strasbourg.

The 15-member committee, put together by the French section of the European Movement from all the main political parties except the National Front, recommends that the next European election in 1999 should be fought on the basis of separate lists in each of France's 22 regions. The government has already signalled that it would support such electoral reform. *David Buchan, Paris*

Turkish troops kill 72 rebels

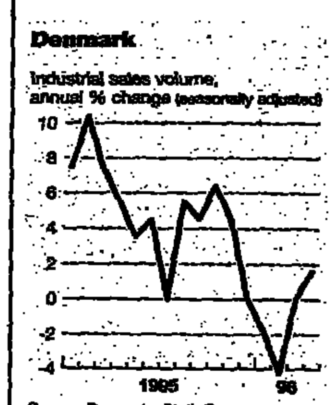
Turkish security forces killed 72 Kurdish rebels in the heaviest fighting in the country for three months, the government's Anatolia news agency reported yesterday. The agency said six government troops died in the clashes in four provinces of the mainly Kurdish region. The fighting began on Tuesday and continued yesterday.

The guerrillas of the Kurdistan Workers' party (PKK) were reportedly attempting to infiltrate Turkey from sanctuaries in Kurdish provinces in northern Iraq. Observers warned that casualty reports were unreliable because both sides tend to exaggerate the other's casualties while understating their own losses. Human rights campaigners believe that more than 20,000 civilians, guerrillas and soldiers have died since the PKK took up arms in 1984.

Turkey's outgoing conservative government's plan to permit broadcasting and education in Kurdish, as well as greater government decentralisation, was blocked by security force hardliners, who intend to continue their strategy of attempting to crush the PKK, ignoring a unilateral ceasefire declared by the rebels six months ago. *John Barham, Istanbul*

ECONOMIC WATCH

Denmark's industrial sales rise



Denmark's seasonally adjusted industrial sales volume rose 1.74 per cent in April, the first month of growth since November 1995. Non-adjusted sales volume grew 9 per cent year-on-year, compared with an 8 per cent yearly decline in March, Danmarks Statistik, the national statistics agency, reported yesterday. However, for the period February-April, industrial sales volume rose only 1 per cent from the equivalent period last year. Meanwhile total new orders in April rose 11 per cent year-on-year, compared with a decline of 6 per cent in March. April's increase nudged new orders for the three-month period February-April up 2 per cent from the same period last year. The increase took place mainly in sectors which manufacture capital goods and non-durable consumer goods. *Agencies, Copenhagen*

■ Sweden's unemployment fell in May to 7.1 per cent of the workforce from 7.5 per cent in April, taking the total number of people jobless to 300,000. *AFX*

Russia rivals trade insults over Moscow bombing

By Sander Thoenes in Moscow

Russian political rivals yesterday accused each other of plotting to disrupt Sunday's presidential elections after a bomb explosion killed four and injured 12 in Moscow's underground.

The powerful bomb, hidden under a seat went off shortly after the train left Tulskaya Station.

"This wild, barbaric action carried out just before the elections is aimed at destabilising the situation in the capital and creating an atmosphere of uncertainty and fear in Russia," said President Boris Yeltsin. "Nothing will come of this. The elections will be held in the time prescribed by law."

No one claimed responsibility for the attack nor for once were Chechen guerrillas seen as the prime suspects. Instead, the bomb set off a barrage of political charges, with supporters of Mr Yeltsin hinting the Communists were the culprits, and Communists pointing a finger at the government.

Mr Yury Luzhkov, the city's mayor, an ally to Mr Yeltsin and the favourite in parallel mayoral elections on Sunday, said he suspected "leftwing radicals" who "have lost hope of winning the elections". Another bomb seriously wounded Mr Luzhkov's running mate last Friday.

One of Mr Luzhkov's challengers is Mr Stanislav Terekhov, a leader in the rebellion of October 1993 and a supporter of Mr Gennady Zyuganov, the Communist candidate for the presidency. Mr Terekhov blamed Mr Luzhkov for the bombing, saying the mayor was looking for an excuse to cancel the vote.

"The popular and patriotic forces are ready to rebuff attempts by the authorities to unleash a civil war," Mr Terekhov told a rally yesterday.

Until now the election campaign has been relatively peaceful, despite initial fears that Mr Yeltsin's rule might yet again degenerate into violent confrontation. In May, Mr Alexander Korzhakov, chief of the president's security service, suggested the elections should be postponed because of the risk of violence. Communist deputies accused the president of planning a coup.

Call for dual price displays during changeover to euro

By Lionel Barber in Brussels

Governments should offer consumers dual price displays during the changeover of national currencies to the euro, according to legislative proposals published yesterday by the European Commission.

The proposals aim to reassure the public and financial markets about the continuity of contracts, conversion rates, and the rounding-up of prices ahead of the planned launch of the single European currency on January 1, 1999.

The Commission expects to adopt the paper next week, in time for presentation to the EU summit in Florence on June 21-22.

The idea is to give legal force to earlier political agreements on the phased introduction of the single currency between 1999 and January 2002 when euro banknotes and coins will start circulating.

The Brussels paper confirms the continuity of contracts denominated in national currencies and in the present ECU basket; stipulates that irrevocably fixed conversion rates will be adopted with six significant figures; and recognises the continuity of contracts in the jurisdiction of third countries.

However, the paper asserts that the timescale for the adoption of the euro for public-sector operations will be covered by separate European Union legislation, as will the issue of transparency of fees to be charged for conversion from units of national currency.

The Commission and the Frankfurt-based European Monetary Institute, precursor of the European Central Bank, are confident of wrapping up by the end of 1996 all technical work related to the launch of the single currency.

The Florence summit is largely a stock-taking exercise. Decisions on the relationship between Emu "ins" and "outs", as well as fiscal discipline in the future monetary union, will be dealt with at the EU summit in Dublin in December.

The Commission said yesterday that it would step up its euro public awareness campaign in the coming months, in partnership with member states.

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Foreign shipowners protest against liquidation as workers start two-day sit-in strike

Gdansk shipyard closure condemned

By Christopher Bobinski in Warsaw

Poland's Gdansk shipyard workers yesterday went on a two-day sit-in strike against a government decision to close the yard, amid warnings from foreign shipowners that the decision would harm the country's entire shipbuilding industry.

The workers, who are threatening to paralyse Gdansk next week with street demonstrations, decorated the yard gate with a portrait of Polish-born Pope John Paul II. This was a conscious reminder of an historic 18-day strike in 1980, which brought about the birth of Solidarity, the eastern bloc's first free trade union.

Yesterday, though, the workers restricted their demands to calls for a restructuring plan for the yard, which currently has debts worth 350m zlotys ($129m) and a loss-generating order book worth $850m. They also want retraining for those faced with losing their jobs.

The protest came to a head after a meeting at the weekend of the Gdansk yard's shareholders where 60 per cent of the equity is held by the state treasury and the balance by the yard's 7,000 employees. Representatives of Mr Wieslaw Kaczmarek, the privatisation minister, voted for the liquidation of the yard with a 12-month interim period allowing the five vessels currently under construction to be completed.

The decision dashed the yard management's hopes that a new, streamlined, company could be carved out of the yard's existing assets and be able to fulfil Gdansk's contracts without a loss.

Shipowners who are building vessels at the yard have also protested at the government's decision. Mr Henning Oldendorf, the managing partner at Egon Oldendorff, which has contracts to build two 49,000 dwt bulk carriers in Gdansk, has said "the shipping community is shocked that the Polish government has actually arranged for its own state-controlled entity to go bust". He added: "The Polish government has effectively decided not to honour contractual export obligations worth around $850m."

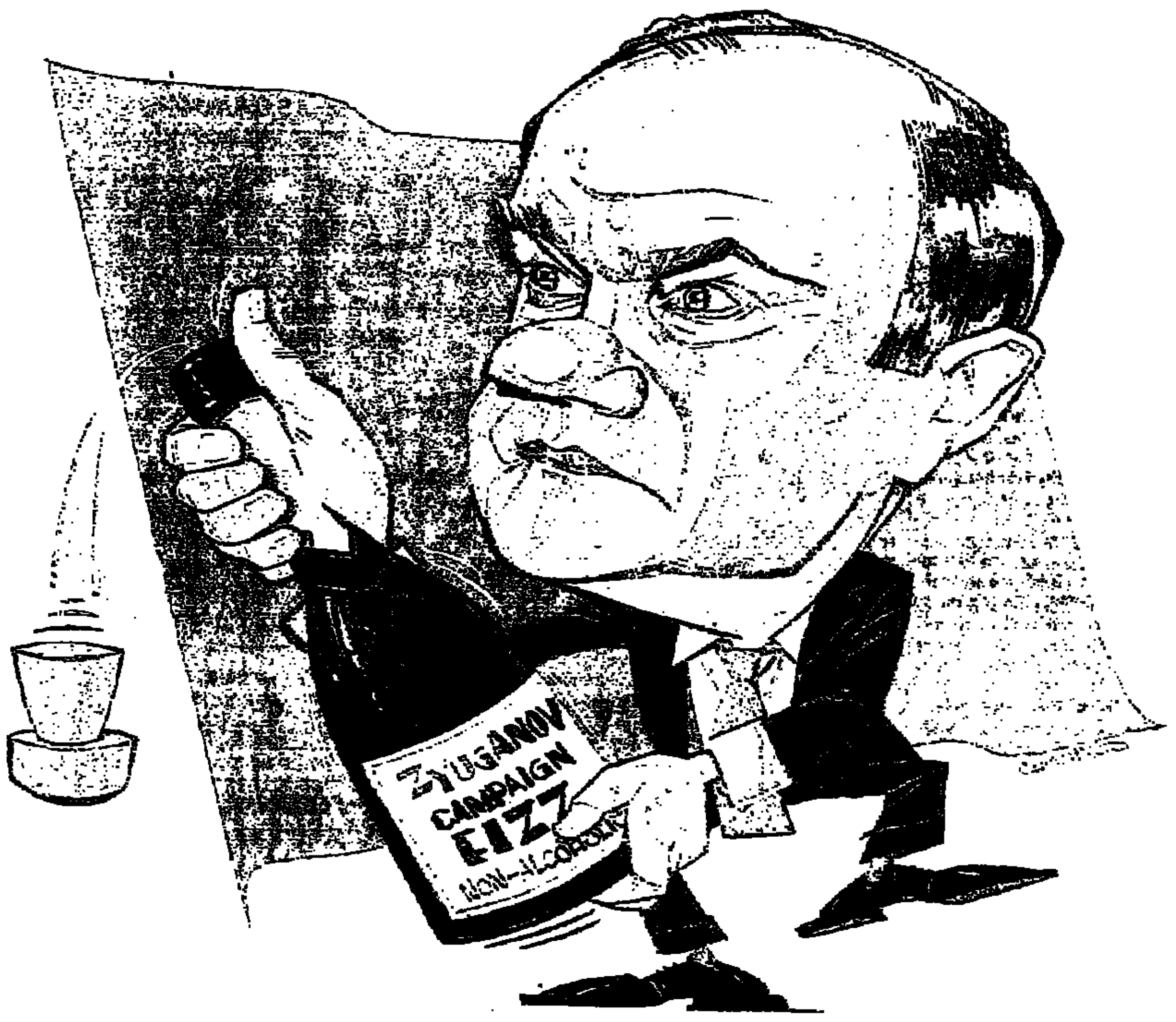
Mr Oldendorff was echoing an earlier statement by Mr Kristian Jebsen, the head of the Norwegian-owned Gearbulk shipping company, which has two ships currently being built in Gdansk. Mr Jebsen called the decision to close the yard "folly". He warned at a christening ceremony at Gdansk that other foreign shipowners would stay away from Polish yards for two to three years if the government went through with the closure.

In spite of the strike, work was continuing yesterday on the Pine Arrow, a bulk carrier being completed for Gearbulk. The vessel is due for sea trials in a few days, under an agreement between the unions and Begesto, a company established by a local bank to arrange $45m worth of loans and $20m guarantees for two ships for Gearbulk.

Kaczmarek: hopes dashed

Chrystia Freeland on why the Russian communist candidate's campaign, once full of promise, seems to be running out of fizz

Mr Nice Guy, leader of 'the nation's losers'



At the boisterous rally which concluded his campaign to become Russia's president, Mr Gennady Zyuganov, the communist candidate, warned supporters that Satan himself was blocking his attempt to take over the Kremlin in the election on Sunday.

"Let us remember what was predicted in the Apocalypse: The devil has sent two beasts from hell. The first has a mark on his head. The second has a mark on his hand," Mr Zyuganov told 7,000 supporters gathered in a Moscow stadium last weekend.

It was a popular line with an audience that quickly realised Mr Zyuganov was imputing hellish antecedents to Mr Mikhail Gorbachev, the former Soviet leader, who has a crimson birthmark on his brow, and to Mr Boris Yeltsin, the Russian president, who blew off two fingers in a boyhood accident.

Some diehard communists, who have watched their ideology, their economy and even their country collapse over the past decade, may really believe that Mr Yeltsin is the devil incarnate. But Mr Zyuganov's supernatural claim might also reflect his own despairing belief that only black magic could have reduced the 20 percentage point lead he enjoyed in opinion surveys at the beginning of the year to the 5 to 10 point advantage pollsters say Mr Yeltsin commands today, just three days before the vote.

At the unofficial kick-off of the campaign six months ago, Mr Zyuganov could hardly have asked for more promising auguries. Under Mr Yeltsin's leadership, the country had undergone a wrenching social, economic and political upheaval that left even reform-minded enthusiasts struggling to find their footing in an utterly changed environment.

Almost overnight, Russia surrendered lands it had taken tsars and commissars hundreds of years to conquer, shrinking back to the borders of the 15th century. According to official statistics, the economy contracted violently as well, to half its size in 1991. Wages were on average lower than before the reforms began and often were not paid for months.

One of the grimmest indicators of the impact of these strains was a sharp decline in life expectancy, from 65 to 59 for men, and the reappearance of medieval epidemics, including bubonic plague. On top of it all, Mr Yeltsin led the nation into its bloodiest entanglement since the second world war, the conflict in Chechnya which has already claimed the lives of at least 40,000 Russian citizens and is still unresolved.

> **Gennady uncorked**
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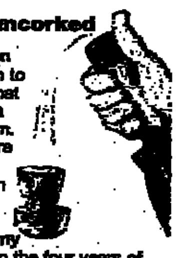
> 
>
> **On the election**
> We must return to our children what has been taken away from them. We must restore the property which has been confiscated.
>
> **On the economy**
> Why is it that, in the four years of reform, Russia has attracted just \$5bn of foreign investment, while a small country like Hungary has attracted \$30bn?
>
> **On queues**
> If you took all the investors who have been swindled since Yeltsin came to office, they would form a queue from Moscow to Lake Baikal. If you lined up the hungry people in our country, the queue would stretch from Moscow to the Urals. And if you took the unemployed, the queue would reach to the Volga at least.
>
> **On Yeltsin**
> He is a western agent...who has betrayed the interests of the country.
>
> **On Yeltsin and vodka**
> I must say that I drink considerably less than Mr Yeltsin, but a little bit more than Mr Gorbachev (a non-drinker).

Elections across eastern Europe – where the shift to a market economy had been swifter, more successful, and uncomplicated by internal wars and the loss of historic territories – had already demonstrated that voters were inclined to punish reformist governments for the pain of the transition by bringing communists back into office. Mr Zyuganov and his allies, who dominated parliamentary elections in December and whose half million brigade of communists formed the only effective political party in the country, had every reason to believe that their countrymen would be guided by the same instinct to "kick the bastards out".

Although Mr Yeltsin is now confidently predicting a victory of more than 50 per cent, the Kremlin's stranglehold over the mass media and the notorious unreliability of Russian pollsters, who may share their journalistic colleagues' inclination to massage the facts in the president's favour, make it impossible to say who will come out on top in the poll on Sunday. But the odds on Mr Zyuganov have narrowed significantly, and satanic powers are not the only forces to blame.

One reason Mr Zyuganov could fail to duplicate the triumph of his eastern European comrades is that the Russian communists are, in the words of one Muscovite banker, "the nation's losers". In contrast with countries such as Poland and Hungary, where a ragged crew of dissident intellectuals swept into power after the collapse of the old authoritarian regimes, in Russia the old guard has remained in charge. Today's president used to be a member of the politburo, today's prime minister used to run the Soviet Union's natural gas monopoly, and today's foreign minister was the boss of the KGB.

Consequently, when the revamped communists of eastern Europe ran for office they campaigned as their countries' natural parties of power, the technocratic elite of the ancien regime which had the skills needed for governance. But in Russia, where most of that old elite has remained firmly, and prosperously, in place, the communists represent a very different slice of the population. They are the hardline holdovers from the old Soviet communist party who, through a combination of ideological conviction and political miscalculation, dropped out of power in the turbulent transformation of the past five years.

Mr Zyuganov is a case in point. The man who threatens to bring the reds back into the Kremlin occupied a far more humble post in the Soviet party hierarchy than Mr Yeltsin, who is today running for re-election on a fiercely anti-communist ticket. Born in 1944 to a family of village school teachers in the central Russian region of Orel, Mr Zyuganov began his working life as a mathematics teacher who steadily, but without particular brilliance, rose through the communist party ranks. He moved to the capital only in 1983, where his first job was the lowly post of instructor in the central committee's ideology department, and where he would rise no higher than deputy head of a section that was swiftly losing its relevance in the shifting sands of *perestroika*.

Allied to a coterie of hardliners who botched their attempt to seize power in 1991, Mr Zyuganov leads those communists who could not, or did not want to, make it in Mr Boris Yeltsin's Russia. That has made Mr Zyuganov's national patriotic coalition a natural home for those voters who have also lost out in the turbulent transition of the past five years: the elderly, the military, the unemployed or under-employed blue-collar workers. But, unlike his victorious counterparts in eastern Europe, Mr Zyuganov has failed to win over Russia's ruling establishment: big business, the media and powerful regional politicians have all at least publicly swallowed past indignities and gone over to Mr Yeltsin's camp.

This united front has skewed the playing field in Mr Yeltsin's favour. From the gilded vantage point of Moscow it is becoming hard to conceive of a communist victory and, as Mr Zyuganov complains, the president so thoroughly controls the nation's airwaves that "we wake up with Boris Nikolaevich and go to sleep with Mr Yeltsin".

But although Mr Zyuganov has singularly failed to attract his nation's elite, he may yet be pushed to power by the armies of the dispossessed. A senior Yeltsin aide recently dismissed the communist candidate as "a little man" who lacks the president's open lust for power and his kingly manner. But Mr Zyuganov's modest demeanour – he can be polite to the point of boredom on the campaign trail and is careful to share the limelight with his allies – seems to appeal to his supporters.

"He left me with the very best impression, his speech was beautiful," said Mr Vassily Slusenko, a 56-year-old former navy officer who now works for Aeroflot, after a Zyuganov rally in the Siberian city of Novosibirsk. To the uncommitted observer, the speeches seemed soporific and Mr Zyuganov's performance felt particularly flat, but for Mr Slusenko it was a welcome contrast with Mr Yeltsin's showier style.

"I never trusted him [Yeltsin]. His manner is capricious and he is unbearably vain," Mr Slusenko said. "But Gennady Andreyevich's character is calm, he is patient and it is clear that he really loves his people."

And despite his sedate persona, Mr Zyuganov has pulled off one political feat which Mr Yeltsin and his glittering team of supporters have not yet managed. Although Mr Yeltsin is widely judged to have run the superior campaign, only Mr Zyuganov and his motley crew of outsiders have come up with a new set of ideals to fill the void left by the collapse of communism.

Mr Zyuganov's muscular Russian nationalism, which unblushingly sets Orthodox icons alongside communist banners, rightly sends shudders up the spines of those western critics who bother to take him seriously. But thanks to the shambolic performance of the nation's democrats, this nationalist creed is the only coherent ideology Russia's battered people have been offered to replace the worn idols of Marxist-Leninism.

Unlike his smartly dressed, technocratic eastern European comrades, Mr Zyuganov cannot expect to be handed power by a nation tired of being ruled by amateurs. Instead, as he storms the walls of the Kremlin, with a bible in one hand and a hammer and sickle in the other, Mr Zyuganov has more in common with the peasant leaders throughout Russian history who periodically led the nation's downtrodden masses in a bloody revolt against their masters. They also told their followers that only the devil could stop such a righteous cause.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 13.06.96: Pool purchase price £/MWh	Final Prices for Trading on 18.05.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.13	11.91	13.17
0100	8.03	9.00	9.00
0130	11.16	12.42	13.88
0200	11.16	12.42	13.88
0230	11.16	12.42	13.88
0300	11.16	12.42	13.88
0330	11.18	12.42	13.88
0400	11.16	12.42	13.88
0430	11.16	12.42	13.88
0500	8.08	12.42	13.88
0530	8.92	12.38	13.84
0600	8.93	12.10	13.98
0630	8.93	9.00	9.00
0700	18.31	17.13	18.39
0730	17.33	17.61	18.95
0800	21.57	19.09	20.84
0830	28.54	21.28	22.82
0900	39.98	21.71	23.47
0930	40.03	21.70	23.48
1000	54.60	21.87	23.67
1030	57.91	21.76	23.52
1100	59.80	19.93	21.88
1130	62.78	21.84	23.63
1200	52.79	22.15	24.01
1230	62.17	32.61	34.39
1300	54.58	32.09	33.73
1330	34.83	18.84	20.29
1400	29.95	18.61	19.99
1430	27.83	17.73	19.09
1500	27.31	17.57	19.01
1530	27.93	17.63	18.95
1600	30.27	17.58	18.91
1630	35.56	22.89	24.29
1700	39.27	31.30	32.73
1730	35.13	31.16	32.57
1800	24.92	22.53	23.95
1830	19.93	17.33	18.60
1900	17.83	17.31	18.57
1930	17.16	17.30	18.57
2000	17.05	9.05	9.06
2030	16.94	9.01	9.01
2100	16.93	9.06	9.05
2130	16.94	25.27	26.53
2200	20.34	25.27	26.53
2230	20.34	25.27	26.53
2300	20.34	23.38	24.64
2330	16.52	23.38	24.64
2400	16.30	12.38	13.94

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.68/MWh becomes 1.668p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision & correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 [illegible] between 8.30am and 4.15pm Monday to Friday.
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NEWS: WORLD TRADE

US urges action on child labour

By Frances Williams in Geneva

The US yesterday proposed extending the "Rugmark" labelling system to the clothing industry and other sectors where child labour is a problem, in a move designed to increase the effectiveness of consumer boycotts.

Addressing a ministerial meeting of the International Labour Organisation on ways of eliminating child labour, Mr Robert Reich, US labour secretary, called on the ILO to study the extension of voluntary labelling programmes and report back within a year.

Mr Reich said more incentives were needed to end child labour. One way of doing this was to harness the desire of companies to protect their good name, and the wish of consumers not to buy goods made by exploited workers.

The US was already working with the domestic clothing industry and consumers to ensure minimum labour standards were observed for garments produced in the US. He was also considering whether the "Rugmark" labelling system for hand-knotted carpets, which certifies the carpets have not been made with child labour, could be used for other products.

"Consumers will respond to such a campaign and if they do, manufacturers will," he said.

According to the ILO, "hundreds of millions" of children under 15 are working, but relatively few of these are producing goods for export. Most work on farms or do domestic work.

An ILO report published last year warned that trade boycotts of goods made with child labour could prove counter-productive by depriving the children's families of income or driving child labour underground.

Ministers were expected to endorse the ILO's broad strategy on child labour, which focuses on eliminating the worst forms of exploitation: forced and slave labour, dangerous work and child prostitution.

Japanese 'split on chip pact demand'

By Louise Kehoe in San Francisco

The US and Japan will re-open talks in Washington next week in a renewed effort to patch up their differences over trade in semiconductors.

However, despite signs of a recent softening in Japan's position, it is far from clear that the two sides will be able to agree on US demands that they renew their controversial semiconductor trade accord, which expires at the end of next month.

Some industry experts in Washington said yesterday that though Japan had dropped its refusal to resume government-level talks, there appeared to be deep divisions in Tokyo about how to proceed.

The differences are said to centre on how to respond to US demands that the five-year-old agreement – under which Japan "recognised US industry expectations" that foreign chip producers should gain 20 per cent of its market – be followed by a further government pact.

Some senior Japanese officials are believed not to rule out a deal between the two governments. However, others are said to be adamantly opposing such an arrangement and to have consented to fresh talks only to avoid a confrontation between US president Bill Clinton and Mr Ryutaro Hashimoto when they meet at next month's G7 summit in Lyons.

Japan has until this week rejected any further government involvement in the semiconductor trade issue, arguing that the industries of both countries should find their own ways to avoid further trade disputes.

US trade and industry officials, in contrast, have insisted that any semiconductor trade agreement must involve "government oversight". Last month, the Semiconductor Industry Association, a US industry group that has been in the forefront of US-Japan trade issues for more than a decade, abruptly cancelled a long-planned meeting with its Japanese counterpart "until the US and Japan reach accord on a new inter-governmental trade agreement".

The US has made one significant concession by agreeing not to seek to include a numerical market share "target" in a new agreement.

The US does, however, want continued government monitoring of trade figures and is seeking "continued progress" on Japanese imports. Currently, US manufacturers hold approximately 19 per cent of the Japanese market, while European producers have about 1.5 per cent.

The US is also seeking a new "accelerated" mechanism for the exchange of data on semiconductor production costs in cases of alleged dumping. This may be a significant demand in view of the current slump in prices for memory chips.

The outcome of US-Japan talks may also depend on the possible role of the EU. The Japanese government believes the EU can be included in a new semiconductor trade agreement if it gives a commitment to reduce and eventually remove import tariffs on semiconductors.

China's first engine remanufacturing plant will give new life to old buses and trucks

UK group helps Chinese keep on truckin'

By John Griffiths

China has around 6.6m trucks and buses and, in rural areas in particular, a time-honoured way of keeping them going:

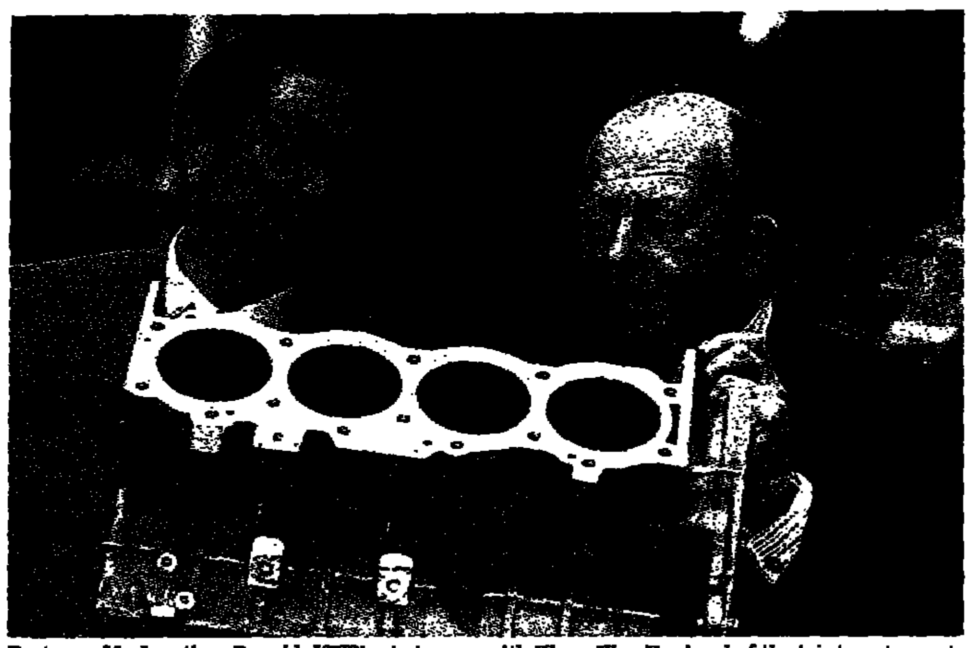
Take the engine out in the village street; spread the bits around; find what's worn out; get the replacement bits machined locally – or start the long wait for 'official' ones to arrive through a cumbersome distribution system.

From next year, however, all that will start to change under a deal just signed in the UK between Sandwell Power Products, a small engineering company based in Tipton, Staffordshire; its investment management advisers and the China National Heavy Duty Truck Corporation (CNHTDC).

The joint venture will provide China with its first factory for remanufacturing of truck and bus engines.

Initial capacity is to be 15,000 units a year, from a plant to be set up alongside CNHTDC's truck-making facilities at Jinan, in Shandong province.

However, the actual market is far larger – estimated at up to 1.5m units a year by China's Centre for Market and Trade Development (CMTD). It was the CMTD, the international consulting arm of China's foreign trade Ministry, which first identified the potential of the venture for Sandwell and Information Services Trans Europe (ISTE), the UK investment management group which is partnering Sandwell.



Partners: Mr Jonathan Reuvid, ISTE's chairman, with Wang Wen Xu, head of the joint venture, at Sandwell's UK plant

Tanya Goddard

A major stimulus has been China's rapidly worsening environmental pollution problems as the country's vehicle population mushrooms.

As a result, the Government is developing policies to curb the use of older, "dirty" trucks. The introduction of compulsory testing of older vehicles is planned. The availability of remanufactured engines will give truck operators the opportunity to keep using trucks which otherwise could be banned.

Sandwell, whose business includes the remanufacture of engines for Land Rover and Unipart, is poised to help develop a chain of 20 or more remanufacturing centres throughout China over the next few years.

Under the present policy of China's state planning commission for the development of China's motor industry, no further engine remanufacturing joint ventures will be authorised outside the Sandwell-ISTE-CNHTDC alliance, in which the Chinese partner has the majority shareholding.

CNHTDC, which is China's principal heavy truck producer with an annual output of around 28,000 units, was given the task two years ago of setting up such a venture.

The terms of the deal require Sandwell and ISTE to provide technology, technical and manufacturing expertise, training, export sales and marketing support and managerial direction.

Initially, CNHTDC's search for partners was conducted in the US. It turned to Sandwell last year, however, after an intended venture with a US partner collapsed at the contract signing stage.

Preparation of the Jinan plant should be completed by the end of this year with pilot production getting under way some months later, according to Mr Jonathan Reuvid, ISTE's chairman.

The deal marks a major breakthrough for Sandwell, a company which has emerged only recently from a troubled past. The current business was formed at the beginning of last year by a management buy-in of what was then Beans Engineering. With the oldest name in the UK motor industry, it was founded as a castings business in 1890 and thus predates the motor industry itself by six years.

Beans bought Reliant, the troubled three-wheeler and sport car maker in 1991, but collapsed into receivership itself at the end of 1994.

WORLD TRADE NEWS DIGEST

US-China talks 'make progress'

China and the US resume copyright talks in Beijing today with both sides saying that progress is being made towards averting a trade sanctions row over intellectual property rights violations. Mr Shi Guangsheng, a vice minister of the ministry of foreign trade and economic co-operation, said the two sides had "laid a foundation" for a possible agreement in informal discussions last week.

Mr Lee Sands, the assistant US trade representative, will spend two days in formal talks with Chinese counterparts. The US has given China until June 17 to show it is serious about cracking down on widespread abuse of copyright.

It says it will target $2bn of Chinese imports with punitive tariffs. Beijing has vowed to retaliate. *Tony Walker, Beijing*

WTO praises Norway's policies

Norway is praised for its generally open trade regime in a report by the World Trade Organisation published yesterday. The report says recent steps to liberalise the Norwegian economy have helped boost growth and reduce inflation.

Norway has fairly low tariffs on industrial goods, averaging 5.6 per cent, and most of its trade is conducted on a duty-free basis under preferential trade accords. About 70 per cent of Norway's exports go to the European Union, which supplies three-quarters of its imports.

The report notes that high protection remains in the agriculture and forestry sectors, though these – with fishing – represent only 2.3 per cent of gross domestic product. The oil sector has increased its direct contribution to GDP to 13.3 per cent in 1995, while services, including government services, account for over 60 per cent of GDP and manufacturing for only 11 per cent. The WTO raises some questions about the complexity of Norway's trade policies, given the large number of preferential trade deals with different terms, but commends its commitment to the multilateral trading system, including plans to lower tariffs, reduce farm protection and eliminate low and "nuisance" customs duties. *Frances Williams, Geneva*

Car retailing jobs in danger

Up to 1m jobs are at risk in the European motor industry in the next 10 years, mostly in car retailing and distribution, according to a report by KPMG Management Consulting.

The report expects distribution, which now accounts for about one third of the retail price of a car, to go through much the same changes as have already affected manufacturing, where costs have been squeezed and jobs rationalised in the race to boost productivity.

That could lead to a reduction of about one half in the 98,000 car dealers in Europe over the next decade. Many smaller dealers are likely to close, although some will survive by switching allegiance to the new car brands entering Europe. Meanwhile, the report forecasts the emergence of increasingly large and financially secure dealer chains, some of which will operate across European borders. *Haig Simonian*

"Europe – the battle continues. The Future of the Automotive Assembly and Components Supply Industry. KPMG Automotive Industry Group. 0121 232 3333, £50.

■ Bouygues, the French construction group, is to complete the replacement of central Beirut's war-damaged infrastructure by building a 1km-long sea wall linking the city's hotel district to the port. The wall will protect 60 hectares of reclaimed land earmarked for property developments. Two marinas, able to hold 1,000 boats, will also be built. Work on the FFr1.2bn ($230m) project will start in August. *David Owen, Paris*

NEWS: INTERNATIONAL

S Africa economic policy 'tilting to business'

By Mark Ashurst in Johannesburg

The South African government intends to reassert its authority over economic policy by releasing its long-awaited macroeconomic policy document tomorrow.

The document, drafted by Mr Thabo Mbeki, deputy president, and Mr Trevor Manuel, finance minister, is expected to set annual targets for growth, fiscal and industrial policy, privatisation, abolition of exchange controls and job creation. In seeking to clarify the government's position in the acrimonious debate between business and trade unions, the document will test the commitment of all sides to developing policy by consensus.

Ministers have accused both camps of brinkmanship, which they say could jeopardise the role of the National Economic Development and Labour Council (Nedlac), the forum for government, unions and business to agree economic policy. To date, the only consensus has been on the need to achieve annual GDP growth of 6 per cent if unemployment is to fall below its current level of 33 per cent.

The document's contents remain a zealously guarded secret. But there is a widespread sense that business has lobbied effectively, leaving little scope for new input from the Congress of South African Trade Unions (Cosatu).

The country's biggest 50 companies have urged the government to slash the budget deficit to below the target of 5.1 per cent of GDP this year by implementing widespread privatisation. They also want quicker abolition of exchange controls, a more flexible labour market, cuts in public spending and lower company taxes.

Just two months ago their proposals received short shrift from Mr Tito Mboweni, minister of labour, who claimed they ignored the social and political realities of the country. But an ANC-aligned economist who discussed the strategy with government officials at the weekend believed it would reflect the concerns of business. "There is not much in it for Cosatu," he said.

Trade unions have urged the ANC, its ally in a tripartite alliance with the South African Communist party, to support its demands for higher company taxes, job guarantees, the retention of exchange controls and protection for local industry against imports. They have threatened protests against the 2 per cent interest rate rise by commercial banks last month, described by Mr Sam Shilowa, Cosatu secretary-general, as "tantamount to the privatisation of monetary policy".

But there are signs that the devaluation of the rand, which has lost 18 per cent of its value against the dollar since February, has bolstered the government's resolve to win back the confidence of the international markets. Last month, Mr Mbeki told Nedlac the government had failed to provide adequate leadership in the debate over economic policy.

Analysts said the Reserve Bank had been closely involved in drafting the document, which sought to retain the competitive advantage of the weaker rand in international trade.

They expected a tight monetary policy to stem inflationary pressures. Private sector economists have revised this year's inflation forecasts from an average of 7 per cent to 9.5 per cent; while forecasts for growth have been cut to 3-3.5 per cent.

Israel braces for retreat from secularisation

The orthodox right is making the formation of a government a religious issue, writes Julian Ozanne

For 30 years Chaim Traibitsch, known as "Chaim the Butcher", has been a crusader for the freedom of his occupation: selling non-kosher foods such as ham and prawns. Time and again he demonstrated and argued with religious Jews to keep his butcher's shop open in a small leafy street in Jerusalem. For the past few years he began to believe that his shop was a firmly entrenched fact in the Holy City.

But the rise of the religious rightwing in last month's elections has forced Mr Traibitsch to brace himself for potential trouble again and re-ignited fears of a renewed religious assault on the fragile status quo between Israel's religious and secular communities.

In negotiations on the formation of a new coalition government to be headed by prime minister-elect Mr Benjamin Netanyahu, three ultra-orthodox and religious parties, which won 23 of the 120 seats in parliament, have raised a series of demands for a shifting away from secularisation back towards a more religiously observant state.

Their demands have become the focus of tortuous coalition negotiations and led to series of mini-crises. Although they have been promised a big share of cabinet posts – including education, social welfare, religious affairs and interior – they have threatened not to join a new government unless many of their religious demands are included in the new government's policy guidelines.

Negotiations on forming a government between Mr Benjamin Netanyahu, Israel's prime minister-elect, and small religious and right-wing parties yesterday remained paralysed by deep differences over cabinet posts, and religious and peace policy, writes Julian Ozanne.

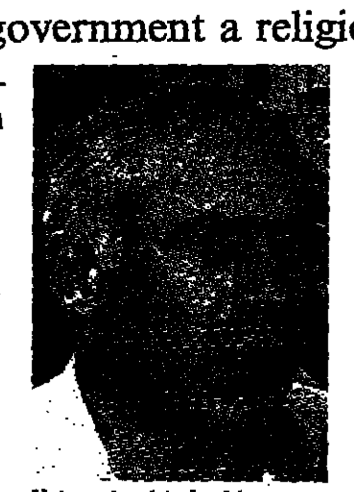
Central to the obstacles are the demands of three ultra-orthodox and religious parties – Shas, United Torah Judaism and the National Religious Party, which together won 23 seats in the 120-member parliament. If these parties refuse to join the government Mr Netanyahu would be forced to consider forming a national unity government with Mr Shimon Peres' Labour party.

The religious parties have demanded a many policy changes which would challenge Israel's delicate religious-secular balance. Although they have been promised the education, interior, social welfare and religious affairs ministries, they are also demanding other big cabinet posts such as housing and construction. The religious demands are opposed by many secular politicians inside Mr Netanyahu's Likud-Tsomet-Gesher bloc and by Mr Natan Sharansky's Yisrael Ba'Aliya party.

Since its creation in 1948, Israel has carefully constructed a legal framework which allows both communities to live and let live under a so-called "status quo". The arrangement left births, deaths and marriages exclusively in the hands of the official ultra-orthodox rabbinate. But it also respected civil rights, pluralistic lifestyles and the fact that the vast majority of Israel's population have always been traditional – neither strictly religious nor strictly secular.

The religious parties' demands include a ban on non-kosher meat imports; prohibiting abortions for socio-economic reasons; preventing appointments of non-orthodox Jews to religious councils; banning buses and commercial activity on the sabbath; closing down sex shops and abolishing advertising for sexual services in newspapers; amending the Law of Return to prevent the immigration of non-Jews and placing all matters of conversion under the absolute control of the official rabbinate.

What is more important, they want the religious-secular status quo that existed before the last Labour government to be enshrined in Israel's Basic Law. Such a move would in effect cancel modifications to the status quo made by the Supreme Court in recent years acting to defend civil rights of the individual.



Netanyahu: involved in tortuous negotiations

Demands, if implemented, would shift Israel much closer to being a strictly ultra-orthodox religious state and set alight the tinderbox of religious-secular relations.

"As a package, these measures are extremely dangerous and explosive," said Ms Naomi Chazan, member of parliament for the liberal secular Meretz party. "This is an attempt to dictate to Israelis what is acceptable and what is unacceptable."

For many Israelis the most worrying aspect of the religious agenda are the coercive efforts to legislate who is a Jew, to define what type of Judaism will be recognised by the state and to bypass the Supreme Court.

"The demands of the religious parties severely complicate the whole question of the relationship between religion and state and would make Israel the only country in a democratic world where only one fundamentalist orthodox interpretation of Judaism is acceptable," said Ms Chazan. "It is also appalling they want to undermine judicial review by the Supreme Court.

Many fear the status quo is now threatened as the religious parties push an agenda with far-reaching constitutional implications. They hope, and believe, Mr Netanyahu will succeed in resisting the full religious agenda.

Mr Netanyahu will be helped by other secular coalition partners such as Mr Natan Sharansky's Yisrael Ba'Aliya party, which represents new Russian immigrants, many of whom are not Jewish. Mr Sharansky and other secular parties say they will not join the coalition unless have freedom to vote according to their conscience on religious matters.

"I don't think the Likud will give in to these extreme demands," said Ms Yael Dayan, a secular Labour member of parliament. "The religious parties will also find the offer of power, money and government jobs more tempting than refusing to join a coalition that does not accept all their demands. We are in a new reality with the new immigrants. What are we going to do? Send 100,000 Russians back to Siberia because they aren't orthodox Jews?" But, even if Mr Netanyahu stands firms against the religious parties everybody concedes that some changes are inevitable, such as a ban on non-orthodox reform and conservative conversions.

Such a move raises deep concern among diaspora Jews, particularly in the US, where reform and conservative congregations constitute 90 per cent of American Jewry.

Many liberal rabbis in Israel, opposed to coercive religious legislation, also fear the implications. "This could distance hundreds of thousands of Jews from the rabbinate and the state of Israel," said Rabbi Yehuda Amital, a former minister. The situation is even more complicated in Jerusalem, where an alliance between the substantial ultra-orthodox population and the right wing ousted long-time Labour Mayor Teddy Kolek in 1994. Jerusalem's orthodox deputy Mayor Rabbi Haim Miller has made increasingly threatening noises since the election about closing down businesses, cinemas and roads on the sabbath. In remarks published yesterday he took aim at escort services operating in Jerusalem.

"There is a certain degree of polarity on the surface," said Mr Traibitsch. "But the seculars won't give up these things so easily. There could be a war of sorts but I believe that the religious will also compromise on all sorts of things."

INTERNATIONAL NEWS DIGEST

Morocco drafts telecoms law

Morocco's cabinet has approved a draft law that would open up its telecommunications sector to private investment, the first step towards dismantling the state monopoly. The law will allow the state-run Office National des Postes et Télécommunications (ONPT) to reach agreements with private sector companies "to exploit the public telecommunications network, with the exception of fixed assets," the official news agency MAP said. The ONPT board has to approve any new deal.

The law under discussion would allow private investment into the retail end of the business with the state retaining control over assets. The government plans to transform ONPT into a private company, to be sold in part or in full later. Last March, ONPT signed a memorandum of understanding with US telecommunications giant AT&T. Under the deal, the two would work together to identify areas of co-operation as part of its liberalisation drive. Other international companies have been waiting for Morocco to open up its telecommunications sector, which they say offers huge investment potential. There are only 1m telephone subscribers, including mobile telephone users, in a country of 27m people. *Reuter, Rabat*

Tajik rebels accuse Moscow

Tajikistan's Moslem opposition leader accused Russia yesterday of destroying an opposition-held town and warned that the Central Asian republic was on the verge of all-out war. Mr Said Abdullo Nuri said government troops, backed by Russian helicopter gunships and warplanes, had attacked rebel units in the restive eastern region of Tavildara. The town of Tavildara had been "practically flattened" by Russian aircraft on Tuesday, Mr Nuri said.

In a statement sent to the UN secretary-general Mr Boutros Boutros Ghali, he said Tajikistan's government had cancelled the next round of UN-sponsored peace talks, planned for Monday. "If the war is not stopped in a day or two, it is not ruled out that it will break out throughout the whole republic," said the statement, carried by the Interfax news agency. Hardliners in Tajikistan took power after defeating a loose coalition of democrats and Islamic forces in a bloody 1992-93 civil war. Opposition fighters are waging a guerrilla campaign from neighbouring Afghanistan and Tajikistan's eastern mountains. *AP, Dushanbe*

Iraq bars more UN inspectors

Iraq barred United Nations weapons inspectors from three military sites in and around Baghdad yesterday, citing security reasons. Iraq said, however, that a UN Security Council team composed of diplomats could visit the controversial sites as long as it did not include military experts. The UN team in Iraq is made up largely of weapons experts. The proposal was made by Mr Tariq Aziz, deputy prime minister, in a statement carried by the official Iraqi News Agency. It was Baghdad's first official comment since Tuesday's stand-off between UN weapons inspectors and Iraqi officials just west of Baghdad.

Mr Aziz said the inspectors had demanded to visit eight industrial and military sites in Abu Ghraib, 24km west of Baghdad. They were allowed into six, and barred from two "for national security considerations." Yesterday, he said, inspectors demanded to enter a base of the Republican Guards in Baghdad. He said Iraq was concerned that the UN missions "have become of an aggressive nature... for espionage purposes." *AP, Baghdad*

Dilemma for Mexicans

Rate boost helps stop peso falling

By Daniel Dombey in Mexico City

A sharp rise in Mexican interest rates helped yesterday to arrest the most sustained bout of peso weakness this year.

The peso stood at 7.56 to the dollar halfway through trading yesterday, compared with 7.64 the day before. This followed a rise in benchmark 28-day interest rates of 2.7 percentage points to 28.98 per cent at the Mexican central bank's bill auction on Tuesday.

The uncertainty over the peso, which had also begun to hurt sentiment in the stock market, reflects a dilemma for the government. The currency's unexpected strength this year has raised concerns that the country's successful export growth may falter, yet peso weakness threatens higher interest rates and risks damaging general confidence in the financial markets.

Having sunk from 3.4 to the dollar in mid-December 1994 to 7.6 just a year later, the peso was widely expected to decline throughout 1996. Instead, it appreciated to 7.37 on May 28, despite accumulated inflation for the first five months of the year of 13.5 per cent.

Exporters such as the glassmaker Vitro complained that a higher peso hurt sales, though many companies benefited from lower costs of dollar debt. Some analysts had been concerned that a strong peso might be vulnerable to sudden falls.

Expectations of a rise in US interest rates – following strong employment data – appeared responsible for most of the peso weakness over the last two weeks.

The peso's improvement in the first five months of the year was helped by new portfolio investment, encouraged by strong trade figures and signs of recovery in the domestic economy. But even so, foreign exchange reserves remained low.

Figures released yesterday showed Mexico's total reserves at $16bn. However, excluding debt owed to international organisations such as the International Monetary Fund, the level was $1.9bn.

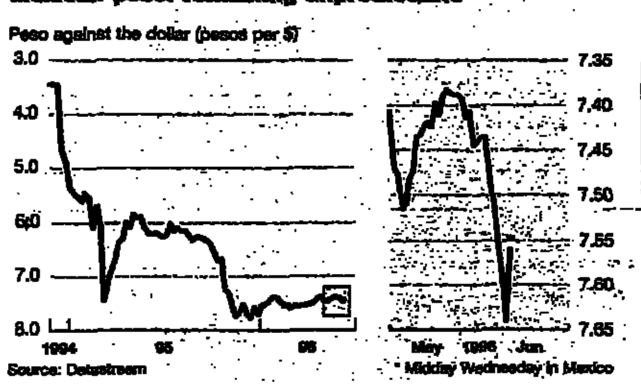
Mexico's policy has been to float the currency freely, but the central bank has been criticised for not using a period of peso strength to build up low reserves.

"The central bank has been carrying out a highly risky strategy of letting the currency appreciate rather than increasing reserves," said Mr Jorge Mariscal, chief strategist for Latin America at Goldman Sachs in New York. "Even though they have changed from the exchange rate regime of the past, there has still been a belief that the exchange rate could be a good tool to fight inflation."

That may mean that Mexico is more vulnerable to outside events, such as US interest rate changes, than other emerging markets. Uncertainty may be greater in the second half of the year, market analysts say, when the US elections take place and increasing imports may put pressure on the Mexican trade balance.

"Mexico is perhaps the country which has had the least exchange rate credibility of the major economies in Latin America," said Mr Alfredo Thorne, chief economist at JP Morgan in Mexico City. "What we're going to get is more volatility."

Mexican peso: remaining unpredictable



Source: Datastream

Fears of racism rise as black churches burn

Arson in the US South has raised the spectre of resurgent white supremacism, but there may be other factors at work as well, reports Patti Waldmeir

As a child, Timothy Welch used to climb the old oak tree outside the Macedonia Baptist Church in this rural corner of the deep South, and listen to black voices – including that of his own black nanny – raised in praise of God.

Almost exactly a year ago, according to his own confession and the charges against him, Mr Welch returned to Macedonia and burned it to the ground, along with another black church outside the little town of Greeleyville a few miles away. He was carrying a membership card for the Christian Knights of the Ku Klux Klan, a white supremacist group, when arrested.

Yesterday President Bill Clinton took his presidential election campaign to the site of the Greeleyville arson, to plead for racial reconciliation and to counter black complaints that the federal government is ignoring a nationwide white extremist conspiracy against black churches.

The president cannot afford to play down such charges, at a time when a rash of black church burnings have focused the public mind on the most tortured of all US political issues: race.

Television footage of southern churches in flames has tapped a powerful historical memory of racial hostility from the 1950s and 1960s, when white supremacists singled out the most powerful and cherished black institutions in the South – the churches – for attack. Nationally, black leaders have drawn pointed parallels with the past, and when Mr Clinton spoke yesterday outside the rebuilt Mt Zion African Methodist Episcopal Church in Greeleyville, he insisted America would not "slip back to those dark days" of racial hatred.

But law enforcement officials, in South Carolina and at the national level, question the accuracy of these echoes of the old South. They say the arsonists have displayed many motives, not all of them racial. In South Carolina, where as many as a third of the attacks have taken place, state law enforcement officials point out that nine white churches, a Hispanic church and a mosque have been burned since 1991, along with 13 black places of worship.

In one celebrated incident, at Barnwell in rural South Carolina, one black and two white churches were attacked on the same night. Two of those held in the state for black church burnings are themselves black, and in neighbouring North Carolina, scene of one of the most recent arsons, local police say race was not the motive of the disturbed 13-year-old white girl being held for the crime.

Black leaders counter that (mostly white) law enforcement officials discount the role of racial animus where it undoubtedly exists, unfairly targeting black congregants as suspects in "arson for profit" crimes. They suggest that even the attacks on white churches may be part of a larger white supremacist strategy to inflame race hatred.

Many blacks believe, implicitly, that the attacks are an orchestrated campaign of terror against them; many whites dismiss the idea of a conspiracy. Attitudes split along racial lines, much as they did over the verdict in the O.J. Simpson trial.

But regional law enforcement officials insist they have so far found no links between attacks in different areas. They doubt the ability of fractured white extremist groups to co-ordinate such an offensive. "You can't see a pattern, and you *certainly* can't see a pattern of an organised conspiracy to burn black churches," says Mr Hugh Munn, spokesman for the South Carolina Law Enforcement Division. But he adds: "That's not to say there's not a pattern of racial discontent among some people".

Some of this confusion may never be resolved: many arsonists may prove to have had no rational motive at all, and the rest will require long investigation. But even in cases where the impetus to violence was clearly racial, the attacks may not prove an accurate barometer of the general state of race relations. Clarendon County – home of Timothy Welch and the Macedonia Baptist Church – is a case in point.

Rev Jonathan Mouzon, pastor of the Macedonia church, dismisses the notion that the act of arson is typical of the state of race relations in Clarendon County. "It's not like that at all," he insists. "This was quite surprising to all of us. We didn't think there was that kind of tension in the town."

He stresses that white county residents helped rebuild the church, and white donations from around the country helped cover the cost. Rev Mouzon believes race relations have emerged healthier from the crisis.

His may be a rosy view inspired by Christian charity. "This has brought attention to the fact that racism still exists, it still exists," says Sergeant Jesse Young, sheriff's deputy in Clarendon County and a member of the Macedonia congregation. "But it has improved a whole lot since the 60s." Pockets of hatred will endure, but the extremists will not threaten general race relations, he believes. As Mr Daniel Lackey, the white news editor of the local newspaper, concludes in reference to the county's white supremacists: "Their kind will die of extinction. They will die out just like the dinosaurs".

Unlike the dinosaurs, their demise may well be financial. Macedonia church has brought a civil suit against the Christian Knights of the Ku Klux Klan, hoping to change their behaviour in the time-honoured American way: by making them pay for their prejudices.


An armed Black Panther tours the New Light House of Prayer Church in Greenville, Texas, which was burnt down at the weekend AP

Lott's election marks move to right in Senate

By Jurek Martin in Washington

The Republican leadership in the Senate took on a more ideological edge yesterday with the election of Senator Trent Lott of Mississippi as the new majority leader, succeeding Mr Bob Dole, who bowed out of Congress on Tuesday.

He was chosen over his fellow-Mississippian, Senator Thad Cochran, by 44 votes to eight of the 53 Republican senators. Senator Don Nickles of Oklahoma, another strong conservative, took over Mr Lott's old position as deputy leader, while Senator Larry Craig of Idaho succeeded Mr Nickles as policy chairman.

Mr Lott immediately promised a similar approach to his predecessor. "Our agenda will be the same as Bob Dole laid out for us," he said, citing as prime goals controlling the rate of growth of government, a balanced federal budget and tax relief for families with children.

But Mr Lott's record is considerably to the right of Mr Dole's, though often masked by his genial demeanour. He was one of the last Republican senators to endorse Mr Dole's presidential candidacy, having preferred Senator Phil Gramm of Texas in the early primaries, and was a mentor of Mr Newt Gingrich, now Speaker, when both served in the House.

His accession to the Republican leadership, held by Mr Dole in majority and minority since 1985, crowns a rapid rise through the party ranks. He became number two in 1994, just after the mid-term elections, defeating Senator Alan Simpson of Wyoming, who was Mr Dole's personal choice. Now 54, he was only elected to the Senate in 1988, after 16 years in the House.

He represents the new breed of conservative Republicans from the south and its borders, now very much the Republican heartland. Complementing the Lott-Nickles leadership in the Senate, the House has a Speaker from Georgia and a majority leader and chief whip from Texas (Congressmen Dick Armey and Tom DeLay.) The chairman of the Republican national committee, Mr Haley Barbour, comes from Mississippi.

Relations between Mr Dole, accustomed to compromise, and the ambitious and outspoken Mr Lott were often difficult. Mr Dole was reportedly incensed when Mr Lott publicly denounced the deployment of US troops in Bosnia, a mission that the then majority leader thought deserved bipartisan support.

Mr Lott's closeness to Mr Gingrich and some of the younger conservative senators also did not square with the sense of Senate collegiality about which Mr Dole spoke movingly in his farewell address on Tuesday.

However, Mr Lott's ability to help or hinder Mr Dole's presidential ambitions may be limited. A revived Democratic party, with some help from reinvigorated Republican moderates, has in effect a stranglehold on most conservative policy initiatives in Congress.

But Mr Lott can be expected to show less reticence than Mr Dole in talking about President and Mrs Bill Clinton's Whitewater problems, which take centre stage again next week with another trial in Little Rock and the pending publication of the Senate Whitewater committee's report.


Lott: genial demeanour

Setback for Virginia conservatives

By Jurek Martin

Senator John Warner's easy primary victory in Virginia on Tuesday constitutes a big setback to the Christian and cultural conservatives who have dominated state party politics in recent years.

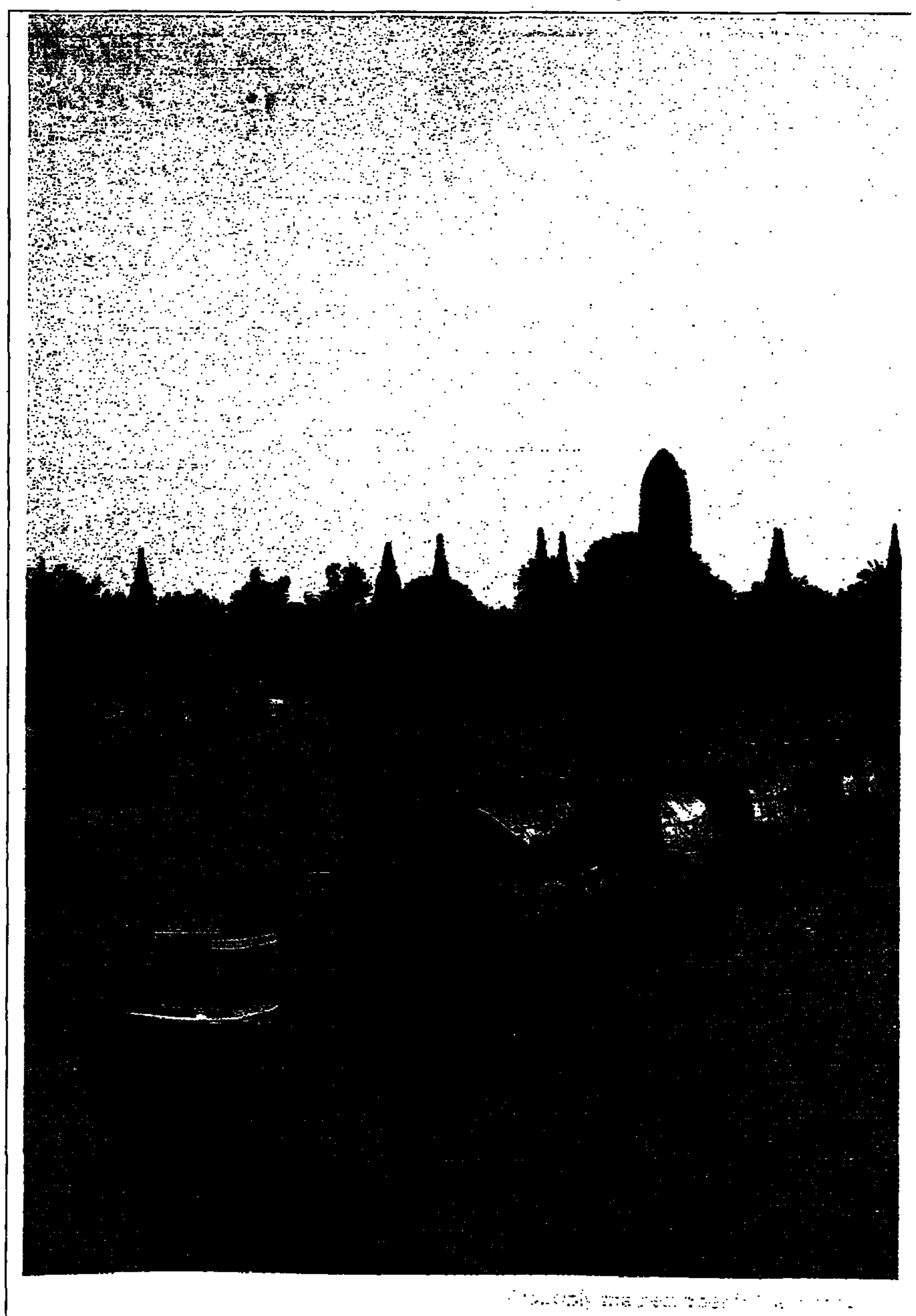
The incumbent Republican senator, seeking a fourth six-year term, beat Mr Jim Miller, a former budget director in the Reagan administration, by 66-34 per cent, a win well beyond the predictions of most local polls. He will now go up against a namesake, Mr Mark Warner, the Democratic candidate, in November.

Senator Warner's old nemesis, Mr Oliver North, was quick to offer his support yesterday morning. But other prominent Virginia conservatives were less forthcoming than the leading figure in the Iran-Contra scandals. Mr Patrick McSweeney, the outgoing state party chairman, said: "Any return of loyalty to Warner is out of the question."

Virginia is a stronghold of the Christian Coalition lobby, with the Rev Pat Robertson's broadcasting network based in the state. But Mr Miller's loss is its third in three years, following Mr North's failure to win the other Senate seat in 1994 and the defeat of the right-wing candidate for lieutenant-governor in 1993.

Republicans were deeply disappointed last year in failing to wrest control of the state legislature from the Democrats. As a result many of the policy initiatives of Governor George Allen, a strong conservative, have been frustrated.

In other primaries, Senator Strom Thurmond of South Carolina took 61 per cent of the vote in the state Republican primary, beating a challenge from a candidate who tried to make the senator's age – 93 – an issue. Mr Thurmond, who has never lost a home state election, may face a tougher fight in November against Mr Elliott Close, a wealthy 42-year-old Democratic businessman.



AMERICAN NEWS DIGEST

Mall explosion toll reaches 39

Trapped gas caused an explosion in a crowded shopping mall in São Paulo, Brazil, that killed at least 39 people and injured hundreds of others, officials said yesterday, citing preliminary findings.

They said gas trapped under the concrete floor of the mall's food court ignited, possibly as a result of an electrical short circuit, causing Tuesday's blast.

Rescue workers continued to dig yesterday for victims in the rubble of the Osasco Shopping Plaza, in a middle-class suburb of the city.

Civil defence officials co-ordinating rescue efforts said the death toll rose to 39 overnight, with more than 470 people reported hurt in the blast. Late on Tuesday rescuers recovered a month-old baby alive from the debris. *Reuter, São Paulo*

Dominican police chief replaced

President Joaquin Balaguer of the Dominican Republic has replaced a controversial police chief following condemnation of the arrest of thousands of supporters of an opposition leader who won last month's presidential election first round.

Gen Enrique Perez y Perez, a hardliner who had said he would be as firm with all "delinquents" as he had been with communists 20 years ago, was appointed by Mr Balaguer two days before the election. He has been replaced by Rear Admiral Camilo Antonio Nazir Tejada, a moderate.

The change followed protests from local politicians and from former US President Jimmy Carter after the arrests of an estimated 10,000 supporters of Mr José Francisco Peña Gomez, the presidential candidate of the Revolutionary party, for failing to produce their identity cards.

Mr Carter will lead a team which will observe the June 30 run-off vote. *Canute James, Kingston*

$6m in US aid for North Korea

The US will provide $6.2m in indirect cash aid to North Korea to alleviate food shortages in the reclusive communist country, the State Department said yesterday.

In a statement, the department spokesman, Mr Nicholas Burns, said the decision to provide the aid followed a consolidated appeal from various UN agencies and consultation with South Korea and Japan. *AFP, Washington*

Call for Disney boycott

Delegates to the Southern Baptist Convention, the governing body for the US's largest Protestant group, voted yesterday to ask its 15.6m members to boycott Walt Disney products and theme parks.

The non-binding resolution approved by the 19,000-plus delegates sharply criticised the company for extending health benefits to same-sex partners of homosexuals and for distributing what it called "objectionable materials that disparage Christian values".

Earlier this week, the resolutions committee deleted the boycott provision after members said it would make them look foolish, but it was reinstated yesterday. *Reuter, New Orleans*

Consumer prices in US up 0.3% in May

By Michael Prowse in Washington

US consumer prices rose 0.3 per cent last month and 2.9 per cent in the year to May, indicating faster economic growth is putting only modest upward pressure on inflation.

However, many Wall Street economists expect the Federal Reserve to respond to an unexpectedly robust economic rebound by raising short-term interest rates next month or in August, to prevent inflationary pressures emerging next year.

In the first five months of this year prices rose at an annual rate of 4.1 per cent, against 2.8 per cent for 1995 as a whole. But the acceleration may not be sustained, as it largely reflected a jump in energy costs. Oil prices have since fallen from peaks reached earlier this year.

Excluding the volatile food and energy components, "core" consumer prices rose 0.2 per cent last month and 2.7 per cent in the year to May.

The figures were in line with Wall Street projections and follow data on Tuesday showing an unexpected 0.1 per cent decline in producer prices last month.

Technology advance and speed-up in liberalisation 'behind the move'

HK telecoms monopoly to be reviewed

By John Ridding in Hong Kong

The Hong Kong government is entering talks with Hongkong Telecom which could cut the scope and duration of the operator's lucrative monopoly on international calls.

Citing its aim of maintaining Hong Kong's position as the leading regional telecoms hub, the government said yesterday it wanted to explore changes to existing arrangements. Hongkong Telecom, a subsidiary of Cable and Wireless of the UK, at present holds a monopoly on international direct-dial calls until 2006.

Mr Alex Arena, telecoms director-general, said the acceleration of international telecoms liberalisation and technological advances lay behind the review. The World Trade Organisation is pressing for international liberalisation, while Singapore's recent decision to curtail the monopoly of its national operator may have added weight to the move.

The government stressed its commitment to its licence obligations to Hongkong Telecom and said it would proceed with the review only with the operator's agreement. "There is no question of forcing measures to reduce Hongkong Telecom's monopoly," one senior government official said. "If they ring up tomorrow to say they don't want to talk, that's fine."

Hongkong Telecom said compensation would be sought for any economic loss suffered as a result of amendments to its licence. The announcement fuelled uncertainties affecting the company, which has seen a sharp fall in its share price over recent weeks. Yesterday, the shares fell 20 cents to HK$13.60 (US$1.75).

News of the review comes a few days after a decision by Citic Pacific, the Hong Kong arm of China's flagship investment group, to reduce its stake in Hongkong Telecom from 10 per cent to 8 per cent.

The move added to speculation of a broader restructuring in the operator's shareholding structure, in which other mainland companies or Hong Kong interests could take a substantial stake. As a UK-controlled monopoly, Hongkong Telecom is seen as a prime candidate for increased mainland shareholdings ahead of the territory's return to China next year.

Mr Arena predicted talks on the international licence would probably last months rather than weeks; it was too early to assess the scope of the negotiations. Industry observers forecast an end to the exclusive direct-dial franchise.

"I would put my money on an end to the monopoly," said Mr John Ure, director of the telecoms project at Hong Kong University. "There is a lot of pressure for the exclusive licence to go," he added, referring to a broader range of services and cost benefits that could result from increased competition.

Opinions were divided on the impact for Hongkong Telecom. Mr David Gibbons, telecoms analyst at James Capel, said it might seek to bargain an early end to international rights in exchange for an increase in local call charges or permission to offer volume discounts for international services.

Mr Dylan Tinker at Jardine Fleming was among those less optimistic. "This is potentially bad news for Hongkong Telecom," he said. The company was already under pressure from three new domestic operators and liberalisation of call-back and leased-line services.

See Lex, Page 12

New Indian government wins confidence vote

By Shiraz Sidhva in New Delhi

Mr H.D. Deve Gowda, India's prime minister, yesterday sailed through a vote of confidence in parliament to secure his 12-day-old United Front coalition government.

The vote followed nearly 12 hours of acrimonious debate over two days, ending weeks of political uncertainty after no single party won a majority in elections last month.

The debate was dominated by allegations of corruption against Mr P.V. Narasimha Rao, the former prime minister, whose 140 Congress party MPs have thrown their weight behind the United Front government to keep the Hindu nationalist Bharatiya Janata party out of power. The BJP, with 190 MPs, emerged the largest party in the elections, but was unable to muster a majority in the 545-member house after the "secular" parties decided to sink their differences and form a coalition.

Mr Rao faces a challenge to his supremacy in the party at a Congress committee meeting to be held today. A party official admitted that dissidents in Congress, who blame Mr Rao for the worst results in the party's 111-year history, are likely to seek his removal as party president.

The Central Bureau of Investigation, the federal police agency, was directed by the Supreme Court on Tuesday to file a case against Mr Rao and four former ministers for allegedly bribing four opposition MPs of small regional parties to win a confidence vote in parliament in 1993 when he was prime minister.

The bureau is simultaneously investigating a $38m urea import scandal, in which Mr Rao's son and another relative have been charged with accepting bribes to award a contract to a little-known Turkish company.

Mr Gowda, who is embarrassed by the charges against Mr Rao, without whose support he could not form a government, told the lower house he would allow the law to take its course in the cases.

The 13-party United Front, which is supported by the Congress and the Communist Party of India (Marxist) from the outside, is expected by mid-July to present a delayed budget for the financial year which started on April 1.

Merrill Lynch, the US investment bank, said in a report released yesterday that the outlook for India as a foreign investment destination was "increasingly optimistic" and that the United Front's pronouncements could reinvigorate the reform process.

But the opposite forces at work in the coalition were highlighted when Mr P. Chidambaram, finance minister, yesterday ruled out privatisation of the country's insurance sector. He said the government would instead restructure the industry, which commands annual premiums of $4.9bn, to help fund social upliftment.

See Lex, Page 12

Bangladeshis wait patiently in line to vote in Dhaka yesterday Reuter

Bangladeshis vote in record numbers

By Mark Nicholson in Dhaka

Bangladeshi voters turned out in apparently record numbers yesterday in a generally well-tempered election described by independent observers as "credible" and marred only by isolated incidents of violence and electoral malpractice.

Early reports suggested three people had died and more than 150 been injured in scattered and generally small clashes in a poll where 30m or more voters cast ballots at 26,000 polling stations.

Informal and preliminary reports from among the 169 foreign observers suggested "irregularities" were limited. "We haven't yet found anything which would be detrimental to the outcome of the poll," said Mr Michael Fathers, a member of a Commonwealth observer team.

Mr Abu Hena, chief election commissioner, called the polls "generally peaceful and disciplined".

Clean conduct of yesterday's poll is critical to hopes of returning stable parliamentary government to Bangladesh, which has suffered two debilitating years of feuding over opposition allegations of government corruption and vote-rigging.

Queues often hundreds of yards long formed outside Dhaka polling stations as they opened at 8am yesterday and voting remained busy until their close at 4pm. Policing in Dhaka and surrounding villages was unobtrusive, though 440,000 security personnel were on duty nationwide.

Turnouts of 65 to 75 per cent were common around the capital.

"This election is much better than previous elections," said Mr Arshad Ali, a 54-year-old airport worker. "It is because the neutral government does not belong to any party."

The 11-member caretaker government was created after Mrs Khaleda Zia's resignation as prime minister in March under opposition demands to install a neutral administration to preside over election arrangements. The opposition, led by the Awami League, had viewed the governing Bangladesh Nationalist party as incapable of holding free polls.

Suharto defied with threat of mass protests

By Manuela Saragosa in Jakarta

Indonesia's opposition yesterday issued one of the strongest challenges in recent years to President Suharto's 30-year rule, warning it could mobilise "tens of millions" of people around the country to protest against the government and demand democratic reforms.

The statement by the liberal Indonesian Democratic party (PDI) comes amid rising tension over the way the authorities are dealing with dissent ahead of parliamentary elections due next year.

"If we wanted, we could bring millions of people into the streets of every major city and town in the country," the PDI said in a statement. The party added it was refraining from doing so because "our primary concern is to avoid anyone getting hurt, to guarantee public order".

The PDI appeared to be lashing back at the government which in recent weeks has intensified its campaign to oust the party's leader, Ms Megawati Sukarnoputri, by encouraging internal rivalry within the PDI in an attempt to install a government-backed candidate.

Observers say this is evidence the government is concerned about the PDI's growing popularity at a time when the ruling Golkar party is gearing up for elections. Though few doubt Golkar will win, it must secure a sizeable chunk of the vote to maintain the regime's legitimacy.

Ms Megawati was confident that based on expressions of support she had received over the past few weeks in the form of letters, faxes and telephone calls, her party could mobilise widespread popular backing. "I hope I will not have to do this," she said.

The government has made sporadic attempts to oust Ms Megawati from the PDI's leadership ever since she was elected its chairwoman at a party congress in 1993. Her appeal is rooted in the fact she is the daughter of the previous president who was sidelined by Mr Suharto in the aftermath of an abortive 1965 coup but is still championed by many Indonesians for his nationalism. Her political weight is augmented by an unofficial alliance with Indonesia's largest Moslem organisation.

The PDI, a product of a forced merger of the Indonesian Nationalist party with other parties in 1973, is one of the two opposition parties allowed in Indonesia. It has recently been the most vocal in calling for democratic rule.

ASIA-PACIFIC NEWS DIGEST

Korean anti-trust officials jailed

A South Korean court yesterday imposed jail terms of up to three years on three anti-trust supervisors and two businessmen for corruption. Mr Lee Jong-Hwa, a senior supervisor of the Fair Trade Commission (FTC), was sentenced to two and a half years in jail for taking $65,380 from a paper manufacturer in return for favours, court officials said.

Two other FTC supervisors also received jail terms of up to three years on similar charges but were released on bail, they added. The three were accused of imposing lenient penalties on companies that violated anti-trust regulations.

The Seoul District Court sentenced Mr Kim Myung-Hyun, vice president of Chosun Brewery, and Mr Koo Hyung-Woo, Hansol Paper president, to six months in jail each for bribery but they were also bailed. *AFX Asia, Seoul*

Greenpeace ship backs off

A Greenpeace ship backed off from a showdown with the Chinese authorities yesterday, entering the Yangtze River on a protest mission to Shanghai but turning around after being boarded and warned to leave. The MV Greenpeace left China's 12 nautical-mile sea limit after a four-hour stay in which it entered the river mouth unhindered before being boarded by Chinese officials several miles from the metropolis.

Forty unarmed military personnel and 30 coastguard officials came aboard the ship, videoing and photographing the vessel and its 32 crew and journalists. According to China's official Xinhua news agency, the captain of the Greenpeace was handed a "law-enforcement order" from the Shanghai harbour administration demanding the vessel leave China's territorial waters.

The campaigners handed the officials a protest message. The Greenpeace headed for international waters under its own power, escorted by eight Chinese vessels, including two gunboats, whose weapons were covered throughout the operation. *AFP, aboard MV Greenpeace*

Japanese mogul sentenced

Mr Haruki Kadokawa, a Japanese publishing and cinema mogul, was sentenced to four years' imprisonment yesterday on charges of conspiring to smuggle cocaine from the US. Mr Kadokawa, then president of Kadokawa Shoten Publishing, was arrested in August 1993 after his aide was caught with 79 grams of cocaine worth Y5.6m ($52,000) at Tokyo's Narita airport.

The district court in Chiba, south-east of Tokyo, also ruled that the 54-year-old Mr Kadokawa embezzled Y31m ($284,400) from the company for funds to buy narcotics. Mr Tetsuya Yoshimoto, presiding judge, said Mr Kadokawa had ordered cameraman Mr Takefumi Ikeda to smuggle batches of cocaine and cannabis from the US on 30 trips since 1985. Mr Ikeda was sentenced to two years' imprisonment in January 1994.

Mr Kadokawa stepped down as the company's president after his arrest and sold all his shares in the company in March last year. *AFP, Tokyo*

Outcry at Canberra tax move

By Nikki Tait in Sydney

Moves by Australia's federal government to claw back A$1.2bn (US$1bn) worth of sales tax exemptions from state governments yesterday brought a chorus of outrage.

This sets the scene for a stormy meeting between prime minister John Howard and state premiers in Canberra today.

In return for removing the wholesale sales tax exemption enjoyed by state and local governments, the new Liberal-National coalition government has said it will increase its revenue grants to the states by almost 4 per cent in the next financial year. But this pledge is worth only A$620m.

The Queensland state government said it was taking legal advice on whether the sales tax exemption changes were constitutional.

It might consider a legal appeal against the decision, it added. The Victorian treasurer warned the move could plunge the state budget back into deficit.

Ford Australia has also warned the immediate removal of sales tax exemptions on government purchases of cars - a move implemented on Tuesday - could lead to the potential loss of at least 30,000 passenger car sales a year in Australia.

The state leaders - all of whom, apart from New South Wales premier Bob Carr, are of the same political hue as Mr Howard - will hold two days' of talks in Canberra.

The federal government is trying to find A$8bn worth of spending cuts over the next two years, in an effort to balance its budget, and squeezing the states has long been viewed as a possible option.

The states have only limited taxing powers and are heavily dependent on the federal government for revenue grants.

Taxpayers sought to fill Pakistan's budget hole

Farhan Bokhari reports on IMF-inspired moves to widen the tax net

Mr Abdul Hameed Khan's property business in the heart of Lahore, Pakistan's second largest city, has flourished in the past 20 years, making Mr Khan a very rich man.

But because his business is operated out of a small bookshop, Mr Khan pays just Rs2,000 ($60) a year in fixed income tax, probably less than the monthly wage of any one of his three assistants.

"In this country, nobody pays taxes because we don't trust the system. People don't get much in return for tax and tax officials only abuse taxpayers," says Mr Khan. "There's always a way out of paying taxes in Pakistan."

After Pakistan's prime minister and minister of finance Ms Benazir Bhutto announces the country's budget for the year to June 1997 today, this may be less so.

For one thing, she is expected to announce the extension of a tax on goods and services to a further 100 items in the manufacturing and wholesale sectors, though not yet in retail.

She is also expected to announce measures to increase revenues from income tax in a country where only 1.6m out of 130m pay any tax at all.

The aim is to raise a further Rs40bn for the treasury.

"A small sacrifice for the nation cannot be ruled out," Ms Bhutto said this week.

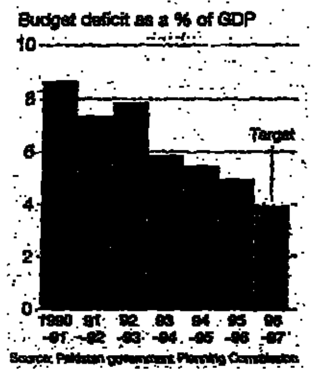
Pakistan's "black economy", whose beneficiaries include thousands of people like Mr Khan, is thought to be about half the size of the official economy.

When Pakistan received billions of dollars in foreign aid in exchange for its support to the west during the cold war, this weakness in the country's fiscal structure could be ignored.

Now no more. Islamabad is on notice from the International Monetary Fund to narrow its budget deficit to 4 per cent of gross domestic product during the next 12 months, from 5 per cent this year, if it is to release further crucially needed money under a Fund-financed structural adjustment programme. Tariff reform was made a key condition of the IMF's support.

Pakistan

Budget deficit as a % of GDP



Source: Pakistan government Planning Commission

Many businessmen want the government to impose income tax on politically powerful landowners, reversing two decades of immunity for farmlands from income tax, as a step towards treating everyone equally.

Mr Arif Habib, president of the Karachi Stock Exchange, Pakistan's largest stock market says: "The business community feels that the tax base in Pakistan is very narrow. Every person who is earning money in Pakistan, should contribute to the finance of the government."

However, landowners dominate the upper and lower houses of the parliament in Islamabad and Pakistan's four provincial legislatures.

The strongest resistance to taxing agricultural incomes could come from the Punjab, Pakistan's largest and politically most influential province.

As it happens, the government is encouraged by this year's economic upturn and says that improved economic activity in a number of sectors would help the ordinary consumer to absorb the effects of the extended sales tax.

The economy has grown by 6.1 per cent over the past year, on the back of the agricultural sector, which has grown by 6.7 per cent after a bumper cotton harvest.

Cutting the deficit is made all the more difficult in a country where defence expenditure and debt servicing together consume up to 70 per cent of the budget.

In spite of pleas to the contrary from international donors, defence expenditure is expected to be increased by up to 14 per cent.

Pakistani officials say that the increase is necessary until such time as the dispute with India over the troubled state of Kashmir is resolved.

To make matters worse, Pakistan is suffering from a widening trade deficit – $3bn this year, up from last year's $2bn.

The increase has occurred in spite of an economic stabilisation package announced last October which devalued the rupee by 10 per cent, raised petroleum prices by 7 per cent and imposed a temporary 10 per cent duty on imports.

The government says there was bound to be a time-lag of at least six to eight months between those measures and improved performance figures.

However, independent economists say the blame lies largely with the government's failure to follow up the October measures with other steps to boost exports. Among the difficulties for exporters are interest rates of 17 per cent.

FINANCIAL TIMES
COMPANIES & MARKETS

Thursday June 13 1996

IN BRIEF

Nokia to dispose of TV production unit

Nokia, the Finnish telecommunications group, said it would dispose of the remnants of its loss-making television production unit to Canada's Semi-Tech Group, finally getting rid of an operation that has been a thorn in the side of its rapidly-growing mobile telephony business throughout the 1990s. Page 14

Report quashes talk of Vinik bond sale

Speculation that Mr Jeffrey Vinik (left), the former portfolio manager of the $56bn Fidelity Magellan Fund, had sold bond holdings in April before announcing his resignation in May, has proved unfounded. The US's largest mutual fund group published its funds' portfolio weightings for the end of April, which were almost exactly the same as at the end of March. Performance figures were also given up to the end of May, showing the Magellan fund slipping further behind the equity market. Page 15

ASX hints at extending trading hours

Mr Richard Humphry, the Australian Stock Exchange's managing director, said the exchange was considering expanding its hours to "perhaps even near-24 hour" trading to attract international investors and secure a place in the increasingly global trading environment. Page 16

Bonds and yen help Nikkei past 22,000

A rise in bonds, and a lower yen lifted sentiment in Tokyo, helping the Nikkei average to break through 22,000 for the first time this month. The Nikkei 225 average put on 287.18 to 22,104.80 after trading between 21,883.24 and 22,130.63. Page 30

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				Rises			
Boehringer	551	+	18	Docks France	1146	+	16
Karstadt	595	+	7.5	GTM Entrepose	349.3	+	14.3
Kaufhof	570	+	9.5	Immobanque	725	+	14
Mannesmann	546	+	8.3	Schneider	254	+	4.2
Falls				Falls			
Hochtief	487	-	8	Cred Lyon	129.2	-	9.8
Kali & Salz	234	-	5.5	Imetal	768	-	13
NEW YORK ($)				**TOKYO (Yen)**			
Rises				Rises			
Bay Network	35⅛	+	1⅞	Asahi Optcl	580	+	29
CKE Restaur	25⅞	+	1⅞	Hiroshima Bnk	533	+	33
Diana Corp	78⅞	+	8	Kikkoman	884	+	31
Falls				Marudai Food	565	+	30
EMC Corp	20⅝	-	1⅝	[illegible]	889	+	54
Sand Tech A	17⅜	-	3⅞	Falls			
Thermo Lab	19¼	-	6⅝	Daikoku Inc	758	-	29
LONDON (Pence)				**HONG KONG (HK$)**			
Rises				Rises			
Coltech	645	+	37	Asia Sec Intl	1.57	+	0.13
Flexmec	223	+	27	Lucky Man Intl	2.75	+	0.2
Falls				Sun Hung Kai	2.9	+	0.2
Adare Prntg	485	-	52	Falls			
Andrew Sykes	410	-	38	Cathay Pacific	13.7	-	0.8
JJB Sports	810	-	30	Grande Hldgs	3.25	-	0.15
Real Time Ctrl	215	-	15	HK Daily News	1.1	-	0.16
TORONTO (C$)				**BANGKOK (Baht)**			
Rises				Rises			
Canadian Mar	6.75	+	1.9	Bangkok Ins	410.0	+	32.0
Mentor Expl	13.0	+	1.9	CCC	65.0	+	5.0
Scholarx	24.0	+	2.0	Thai Wah Fd	18.75	+	1.75
Falls				Falls			
Algoma Cntrl	31.2	-	1.8	Electric Gen	88.0	-	6.0
Cameco Rscs	28.75	-	1.25	Intexfor	39.0	-	5.0
Sceptre Rscs	34.05	-	2.85	Mutual Fund	344.0	-	24.0

New York and Toronto prices at 12.30pm

Astra drops Losec legal action

By Greg McIvor in Stockholm

Astra, the fast-growing Swedish pharmaceuticals company, is to drop its legal action against Byk Gulden of Germany over alleged patent infringements of Astra's blockbuster anti-ulcer drug Losec. The Swedish group's shares fell by more than 4 per cent on the news.

The decision marked the abandonment of Astra's attempts to exclude a third competitor from the market for so-called proton pump inhibitors used in the treatment of acid-related disorders. Its most-traded A-share closed down SKr13.5 at SKr296.

Astra had issued legal proceedings in 10 countries against Byk Gulden's product Pantoprazole, which has proved a successful lower-priced challenger to Losec in Germany and selected other markets since its launch in 1994.

Astra, led by Mr Hakan Mogren, accused Pantoprazole of being a copy of Losec, which had sales of SKr17.2bn ($2.55bn) last year and is set to become the world's biggest-selling drug this year.

However, Mr Staffan Ternby, Astra's head of corporate communications, said the international nature of the court action meant the dispute was unlikely to be resolved for several years. "Commercial" considerations had prompted its termination.

"The battlefield for Astra is not where Byk Gulden is but in the older generation of medicines," he said, adding that four out of five acid-related treatments were still carried out with previous generation therapies. Losec had "huge" future potential and its prospects were undiminished by Pantoprazole, he insisted.

Byk Gulden, a subsidiary of the industrial group Altana, said it would press ahead with its strategy of introducing Pantoprazole to the European market. Altana's shares rose DM65.50 to DM1046 yesterday.

The drug was introduced in France and Spain this spring under co-marketing agreements. It is due to be launched shortly in the UK, under licence by Boots, and in Italy in September.

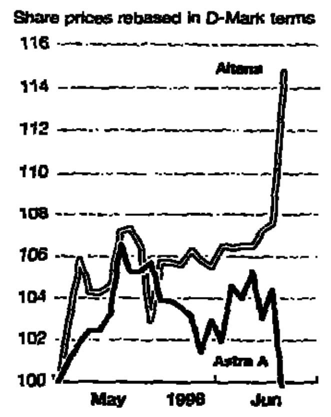
Pantoprazole has already claimed a 12 per cent market share in Germany, Losec's second-biggest European market with sales of SKr2bn and a 34 per cent market share. Its emergence, at a discount of 12-16 per cent, prompted Astra to cut its Losec price in Germany by 15 per cent – the first time it has made such a move.

Mr Steve Putnam, pharmaceuticals analyst at Kleinwort Benson Securities in London, said Losec remained the acknowledged market leader and Pantoprazole offered no significant clinical advantages.

He said Astra could draw comfort from the absence of plans to launch the German product in the US, where Losec's annual sales were growing at about 40 per cent.

Astra and Altana

Share prices rebased in D-Mark terms



Source: FT Extel

Singapore Telecom looks for purchases abroad

By James Kynge in Singapore

Singapore Telecom, the city-state's biggest company, announced a healthy increase in its full-year net profit yesterday and signalled that it was actively looking for Asian-Pacific investments before its basic telecoms monopoly ends in 2000.

Group net profits for the year to March 31 were S$1.49bn (US$1.06bn), up 12.2 per cent. Turnover rose 13.7 per cent to S$4bn and the company's operating margin edged higher to 49.2 per cent from 49.1 per cent. Analysts said the results were close to expectations.

The earnings per share rose 12.2 per cent to 9.75 cents and a gross dividend of 4.0 cents is proposed.

The largest Asian stock outside Japan, Singapore Telecom has a market capitalisation of at least S$55bn.

Mr Koh Boon Wee, chairman, said growth in demand for core services such as international calls and mobile phones more than offset IDD rate cuts and a 13.3 per cent increase in operating costs.

The international telephone business, which contributes 45.3 per cent of total revenues, grew 22 per cent mainly because of a surge in traffic with China, the Philippines, Bangladesh and Burma.

IDD rates, cut again in April this year, were likely to be reduced further and margins were expected to erode, eventually to near cost-base levels as competition stiffened, Mr Koh added.

The government's decision last month to bring forward the end of Singapore Telecoms basic telecoms monopoly by seven years to 2000, will provide a "very challenging" environment. Competition in mobile phones and pagers starts next year.

"We are not worried about the competition. Anyone who assumes that we are going to be a pushover is going to be sadly mistaken," Mr Koh said.

He said a S$1.5bn government compensation payment for the early loss of monopoly would be invested.

The company is already involved in the first pan-Asian satellite telecoms network and is looking further at investment opportunities particularly in the Asia-Pacific region and would consider "very seriously" openings in Hong Kong and southern China.

The company said its purchase last year of an effective 12.15 per cent stake in Belgacom, the Belgian telephone monopoly, cost it S$922.6m, a little under half of its current overseas investments.

Murdoch group plans to invest $300m-$400m in JSkyB venture

News Corp to set up satellite TV service in Japan

By Michiyo Nakamoto in Tokyo

News Corporation, the international media group headed by Mr Rupert Murdoch, has joined the rush of satellite TV entrepreneurs seeking to break into the Japanese market.

Mr Murdoch said in Tokyo yesterday that he planned to invest $300m-$400m to set up a multi-channel digital satellite broadcasting service in Japan within the next two years.

The service, to be called JSkyB, follows the creation of PerfecTV, a joint venture service established by several Japanese trading companies, which plans to begin offering nearly 70 channels this autumn.

DirecTV, the US satellite TV company controlled by Hughes Aircraft, plans to launch a 100-channel service in Japan next year. In the US, DirecTV already broadcasts 175 channels and has 1.5m subscribers.

JSkyB would fill a gap in News Corp's global broadcasting interests, which include BSkyB in the UK and Star TV in Asia.

Mr Murdoch plans to launch a digital television service in the US with MCI, the telecommunications company, in autumn 1997. A service aimed at Brazil is planned for later this year and a 200-channel service will be launched by BSkyB before the end of next year.

Mr Murdoch said the investment in JSkyB would fall "well within the total Star investment" and he expected JSkyB to become profitable "very, very quickly". Star TV is expected to make a loss of $100m this year.

The Japanese TV market has been slow to embrace the latest technological developments that are making a multitude of new channels available. Only 6 per cent of Japanese households subscribe to cable TV, for example, and there are only two poorly subscribed satellite TV channels.

Mr Murdoch was optimistic about the potential for pay-TV because of Japanese consumers' high average disposable income. "The time has come to be very serious about investing in a digital broadcasting platform in Japan," he said.

News Corp already offers a 24-hour digital TV channel in Japan which is available through 60 cable companies.

The channel, Star Plus, has 400,000 subscribers just two months after its launch and News Corp expects to have 1m homes connected within a year. The channel offers a menu of game shows, series and movies, dubbed in Japanese.

Star Plus will be followed by Star Movies, a cable-delivered pay movie channel which will start in Japan in December.

Mr Murdoch said JSkyB aimed to start with at least 100 channels, airing programmes provided mainly by Japanese broadcasters. While News Corp has access to a large volume of programming through its interests in Twentieth Century Fox and Fox Broadcasting among others, it would only operate a handful of channels itself.

News Corp is calling on Japanese terrestrial broadcasters, including NHK, the public broadcasting company, to join a partnership of local programme suppliers for JSkyB.

Reuter

Rupert Murdoch in Tokyo yesterday said he expected JSkyB to be profitable 'very, very quickly'

Japanese broadcasters have been watching developments in multi-channel broadcasting with caution. The terrestrial broadcasters will face real competition for the first time with the introduction of digital multi-channel broadcasting.

The start of three new multi-channel services in Japan over the next few years is also expected to change the nature of the country's broadcasting.

Observer, Page 11; Lex, Page 12

Daewoo eyes Thomson Multimedia

By David Buchan in Paris

Daewoo of South Korea wants to buy Thomson Multimedia, the consumer electronics part of the Thomson group which the French government is to privatise later this year.

Mr Bae Soon-Hoon, president of Daewoo Electronics, told French newspapers in interviews published yesterday that his company had already made its interest in Multimedia known and was waiting for a reply from the French government.

Daewoo's interest in Multimedia has been encouraged by the Lagardère group, which wants to buy Thomson-CSF, the professional/defence electronics arm of the Thomson group, to put it together with its own Matra defence division, but is only interested in a small part of Multimedia. To cater to the government's desire to sell Thomson en bloc, Lagardère has been saying recently that it had an "Asian taker" for Multimedia.

By contrast, Alcatel, the French telecommunications and engineering group, has quietly indicated it might bid for all of Thomson.

In February, the government put Mr Marcel Roulet, a former France Télécom president, at the head of Thomson with a brief to report this summer on how to proceed with privatisation. Mr Roulet has yet to report to the government, and in the absence of set government guidelines for the Thomson sale, neither Lagardère nor Alcatel have yet submitted firm bids.

Mr Bae, taking advantage of his presence in France to open today another Daewoo TV tube factory in Lorraine, has now adopted the same high-profile tactics as his Lagardère ally. Speaking to Les Echos newspaper, he said he saw "no French solution" for Multimedia, though it was natural for the French government to want one. He also dismissed the possibility of any other European, Japanese or even Korean company being able or willing to take on the French television maker.

Industrial sources in Paris reacted with some irritation to Mr Bae's claims of inefficiency and high costs at Multimedia plants, even in Singapore. It was pointed out Multimedia had a far larger television business than Daewoo, and in its digital TV decoders had crucial technology which the Korean company lacked.

Thomson's digital decoders for satellite TV are a growth area, account for nearly 15 per cent of its turnover, and could eventually lead to a falling out between Lagardère and Daewoo. Lagardère recently said that this was one area of Multimedia which it would like to hang on to.

Multimedia has clawed its way back to making an operating profit of FFr356m last year on sales of FFr36.5bn. But it carries debt of FFr14bn from past losses and investments and the cost of servicing this put it into a net loss of FFr700m last year.

In view of this, Mr Bae told Les Echos that he thought the company's value was "probably slightly negative", and said that Daewoo would not be interested in buying the company if the French government did not first restructure the debt.

Banco Sabadell to control NatWest subsidiary

By David White in Madrid and George Graham in London

National Westminster Bank of the UK yesterday agreed to sell control of its Spanish retail banking subsidiary to Spain's Banco Sabadell.

Under a preliminary agreement announced yesterday, Banco Sabadell, a medium-sized bank based in Catalonia, will take an 80 per cent share of Banco NatWest España. The banks said final discussions were still going on and gave no financial details of the deal.

The sale includes control of NatWest's northern Spanish subsidiary, Banco de Asturias, in which it holds a stake of just over 90 per cent.

The UK bank will keep a 19.9 per cent stake in the business and plans to sell a range of banking products in Spain through a co-operation pact with Banco Sabadell.

The deal largely closes the book on NatWest's foray into overseas retail banking and, coming just one day after the $590m purchase of Greenwich Capital, the US broker, adds to the list of sales and acquisitions that have transformed the group over the past year.

It will remain active in Spain through its corporate and investment banking arm NatWest Markets, which has been established in Madrid since 1994 and is unaffected by the deal.

Banco NatWest España made net profits of Pta3.06bn ($23.6m) last year, emerging from a three-year spell in which it had run up cumulative losses of more than twice that.

The Spanish operation, with 1,325 staff and about 200 branches, was the last significant relic of NatWest's attempt in the 1980s to develop a retail banking network outside the UK, although the group retains small, profitable operations in Gibraltar and Greece.

The Banco NatWest group has assets of about Pta370bn compared with about Pta1.6bn for Banco Sabadell, a long-established, unlisted bank with widely dispersed ownership. The deal will increase Sabadell's network by about half, with 115 Banco NatWest branches and 91 Banco de Asturias branches, greatly strengthening its presence outside Catalonia. In the first quarter of this year, Sabadell increased net profits almost 23 per cent to Pta4.39bn.

Banco Sabadell is set to relaunch Banco NatWest under a new name in the autumn, maintaining a separate identity from its own 400-plus branches and those of Banco de Asturias.

Mr Michael Sharp, managing director of NatWest's Spanish retail banking arm, said the deal, which was negotiated over the past three weeks, provided an "elegant solution" for the operations.

Speculation over a withdrawal by NatWest surfaced a year ago. The bank adopted an aggressive growth policy in the late 1980s through a joint venture with Spain's March group, whose shareholding it later bought out.

NatWest has already sold off its retail banking operations in France, Australia, the Netherlands and, most recently, the US, with the sale of NatWest Bancorp to Fleet Financial for $3.56bn.

The Banco NatWest sale, like the Bancorp disposal, will result in a loss in NatWest's 1996 accounts, because goodwill previously written off will have to be written back. The group's Tier 1 capital ratio, however, will rise by about 0.1 of a percentage point because of the reduction in risk-weighted assets.

Suez sets out its strategy for return to growth

By Andrew Jack in Paris

Suez, the French financial and industrial holding company which has been undergoing wide-ranging restructuring, yesterday unveiled a tightly focused two-pronged strategy to shareholders at its annual general meeting.

Mr Gérard Mestrallet, chairman, said the group would in future concentrate on public infrastructure and services to communities such as water and gas; and on financial services to individuals.

He said the group had already invested FFr13bn ($2.49bn) in these sectors over the past eight years, and they combined the characteristics of high profitability, stability, good financial health, a strong domestic position and high international growth potential.

In his first public statement since the group announced the sale of Indosuez, its banking arm, to Crédit Agricole in early May, Mr Mestrallet stressed that Suez would be back in profit in 1996.

His conceded that the acquisitions by Suez of the industrial group Société Générale de Belgique in 1988 and the insurer Victoire in 1989 were mistakes, and had burdened the group with heavy debts.

However, he stressed that these debts had now been brought under control, while other concerns about property exposure, the future of Indosuez, heavy losses and internal organisation had been dealt with.

Since last year's meeting, Suez has changed radically. Mr Gérard Worms resigned as chairman a few weeks after last year's meeting, to be replaced by Mr Mestrallet. Large new provisions were taken and the process of selling off its property accelerated.

The number of staff at the Suez holding company in Paris has been halved, and a 51 per cent stake in Indosuez sold, as well as its controlling stake in Gartmore, the UK-based fund management group.

In spite of the French system of cross-shareholdings, Mr Mestrallet said that the reciprocal stakes of Suez with UAP and Saint-Gobain had proved useful in the past and were not destined to be sold.

He said it was possible that its shareholding in Société Générale de Belgique could evolve, but that it was not currently a priority.

• Bull, the French-based personal computer maker, said its PC operations would be profitable from the second half of this year as a result of the transfer of its Zenith Data Systems unit to Packard Bell, AFX News reports from Paris.

Bull holds 19.9 per cent of Packard Bell following the transfer. It also holds 51 per cent of a joint venture with Packard Bell to handle European distribution of PC products for the professional market. Bull said the transfer of ZDS to Packard Bell would improve its overall financial results from the second half.

Shares in Neste slide as Borealis profits disappear

By Hugh Carnegy in Helsinki

Neste, Finland's biggest industrial group, yesterday reported a collapse in profits in the first four months of the year, prompting a 5 per cent fall in the company's shares on the Helsinki bourse.

Pre-tax profits tumbled from FM804m at the same stage last year to FM277m ($59m), hit by a big reverse at Borealis, the chemicals and polyolefins group set up jointly with Norway's Statoil in early 1994. Earnings per share fell from FM7.10 to FM1.65.

Shares in Neste – an oil and petrochemicals group which was partially privatised by the Finnish government late last year – slipped FM4.5 to finish the day at FM88.50 after closing at FM93.00 on Tuesday.

The damage was done chiefly by Borealis, which saw its own profits wiped out during the period by a fall in polyolefins prices by about a half since the same stage last year.

Combined with the effect of write-offs against goodwill arising from its stake in Borealis, this swung Neste's contributions from associated companies from a gain of FM277m last time to a loss of FM128m.

Neste also suffered from a fall in other operating income from FM331m in the same period last year to FM80m because of high one-time asset sales concluded in early 1995.

Neste has been seeking to sell out of Borealis since late last year and said it was in "continued negotiations" to do so. Mr Veli-Matti Ropponen, chief executive, said he expected a sale to be concluded by the end of the year, but declined to give any further details of the negotiations.

He said Neste expected to post full-year profits ahead of last year's pre-tax surplus of FM1.5bn, despite the setback in the first four months. "There should be room for improvement in our core business," he said, adding that margins in oil refining were already ahead of last year's levels.

Group sales fell from FM15.2bn to FM14.4bn, but this was mainly owing to a planned decrease in oil trading activities.

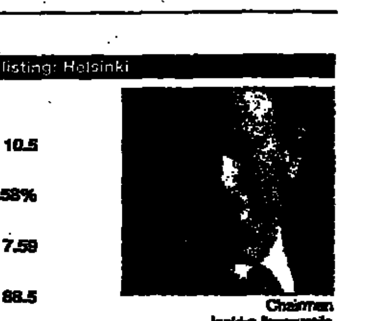
Apart from trading activities, sales were up in the oil, exploration and production and energy divisions. However, sales in the chemicals unit fell sharply from FM2bn to FM1.4bn due to falling prices.

Neste's group operating profits fell from FM1.1bn to FM405bn. It said the operating profit of ongoing operations – as distinct from the contribution from Borealis and asset sales – was just above FM400m, slightly below performance in the first four months of last year, but ahead of the last four months of 1995.

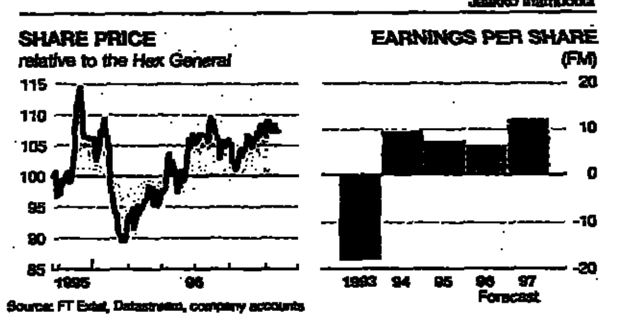
PROFILE: NESTE

Market value: $1.95bn Main listing: Helsinki

Historic P/E	10.5
Dividend yield	2.98%
Earnings per share	FM 7.59
Current share price	FM 88.5



Chairman Jaakko Ihamuotila



Source: FT Extel, Datastream, company accounts

Mercedes-Benz sales rise 6% at midway stage

Sales at Mercedes-Benz, the German automotive manufacturer, rose about 6 per cent to an estimated DM38bn ($24.73bn) in the first half-year, said Mr Helmut Werner, chairman, AFX News reports from Stuttgart.

"If the present trend in business development continues, we're optimistic about 1996 earnings," Mr Werner said. In 1995, the company reported operating profits of DM2.29bn and net profits of DM2.27bn.

But Mr Werner warned that commercial vehicles sales were likely to stagnate at about DM32bn this year because of the difficult market situation, so growth would come mostly from car sales, which were expected to rise to about DM43bn against DM40bn last year.

Unit car sales showed a 7 per cent rise in the first half, and were expected to grow to 640,000 units in 1996 from 585,000 last year, or more than 9 per cent. Commercial vehicle sales were likely to rise from 320,000 to 340,000, or more than 6 per cent, he said. Most of the rise was seen coming from light trucks, vans and buses, while mid-size and heavy trucks were feeling the pinch of weak economic growth, said Mr Werner.

He said that in the first five months of 1996, unit sales of transporters were up 25 per cent while sales of buses were up 20 per cent and were expected to rise 10 per cent in the full year. He said that while "our light trucks have turned out to be real volume boosters," growth in their sales could compensate for the decline in heavier trucks.

Mr Werner said that although commercial vehicle registrations in western Europe were up 6 per cent in the first five months, new orders for commercial vehicles "indicate clearly that we're on the way down," because of sluggish economic growth. "New order inflow is very, very bad," he said.

Mercedes-Benz had been able to win a bigger market share against the market trend, but the market was so weak that the second half of this year would be very difficult and stressful, he said.

International lines keep Tele Danmark busy

Revenue from overseas business is set to rise sharply this year, reports **Hilary Barnes**

What does a small, national telephone company do when its national market will soon be turned into a small piece of a common European market? The strategy adopted by Tele Danmark, the Danish telecommunications company, is to internationalise.

Its name keeps popping up all over the place in connection with tenders for licences or shares in telephone companies, bids which are sometimes successful and sometimes not, and more can be expected. "We are well on the way, but we haven't reached the end of the road yet," as Mr Hans Wrzen, Tele Danmark chief executive, puts it.

"As the market is liberalised and we are faced with a competitive situation, we shall lose market shares at home, so we must compensate with new business abroad – in Scandinavia, Europe and international, in that order."

The background to the group's current strategy is the merger of five state-owned regional telephone companies into Tele Danmark in 1990-91, which was followed by a privatisation sale of 49 per cent of the shares in 1994. The issue raised DKr19bn ($3.2bn), increasing Tele Danmark's equity capital from DKr8.8bn at the end of 1993 to DKr23.5bn in 1994.

After making a net profit of DKr3.4bn in 1995, the group increased its equity capital to DKr25.9bn at the end of last year, when total assets were DKr37.7bn. This left it with the financial strength to make investments abroad without causing it to slow down its heavy domestic investment programme.

To date, turnover in foreign business is minute – about DKr224m out of total turnover in 1995 of DKr18.8bn – but the figure could rise sharply this year. The Danish company was a member of a consortium with Ameritech and Singapore Telecom which paid BFr73bn ($2.31bn) to acquire almost 50 per cent of the Belgian national telecom group, Belgacom. Tele Danmark, whose 16.5 per cent stake cost it DKr4.6bn, has yet to decide whether to treat Belgacom as an associated company – in which case a share of Belgacom's net profits will appear in Tele Danmark's accounts – or to consolidate Belgacom into the accounts on a one-sixth basis. The latter procedure would add about DKr4bn to Tele Danmark turnover.

So far, the investment in Belgacom has turned out well. "Its profits were better than expected in 1995 and the outlook for 1996 is better than we expected as well," says Mr Wrzen. The three consortium members all have experience of operating in a competitive environment; Tele Danmark has gone through the process of change and rationalisation associated with privatisation and deregulation.

On the operational side, Mr Wrzen says there are synergies to be obtained from traffic routing and from co-ordination of equipment purchasing. Tele Danmark has two bids under consideration for a 35 per cent stake in Telecom Eireann, the Irish telephone company, and for a 25 per cent share of Mobilkom Austria, the mobile phone subsidiary of the Austrian state telecoms group, PTV. If its Irish bid succeeds, it will be making another substantial investment – analysts suggest DKr3.5bn would be near the mark. Tele Danmark's investments in existing companies are balanced by "green fields" business, and the whole is balanced by a geographical spread. The greenfields business includes shares in mobile phone operating companies in Hungary, Lithuania and Ukraine – "not big business, but good business", says Mr Wrzen – as well as a 19.5 per cent stake in a new licence to set up a GSM (digital) mobile phone company in Poland. Sweden ranks high among Tele Danmark's priorities. Last year, the UK's British Telecommunications, Norway's Telenor and Tele Danmark set up a company, Telenordia, to offer a wide range of national and international telecommunications services to (primarily) business customers in Sweden. Telenordia hopes eventually to win a "useful" share of traditional fixed-line voice telephony market in Sweden.

Also in Sweden, Tele Danmark and Telenor have set up a joint company offering equipment for data transmission, while Tele Danmark last year won one of two licences to establish a digital national paging and data transmission service. In Germany, it operates a company re-selling telecoms capacity, exploiting the relative differences between the Danish and – higher – German prices, and Tele Danmark also has a 20 per cent share in Miniruf, a sophisticated, digital paging system. Further afield, Tele Danmark participates in the Honeycomb consortium, which has tendered for a licence to set up a mobile phone system in Hong Kong and it is also considering some projects in China.

Tele Danmark prospects for growth

	1993	1994	1995	1996*	1997*	1998*
Revenues (DKr m)	18,259	19,806	20,890	21,548	22,005	22,760
EBIT	2,849	4,186	4,315	4,790	5,278	5,860
Interest	(463)	156	727	377	227	180
Other	13	(416)	416	(160)	250	250
Belgacom (17.5%)	0	0	0	(48)	44	223
Net Income	1,561	2,570	3,494	3,145	3,598	3,944
Reported EPS (DKr)	11.9	19.8	26.7	24.0	27.5	30.1

Source: Merrill Lynch *Estimate

Nokia to offload struggling TV unit to Semi-Tech

By Hugh Carnegy in Helsinki

Nokia, the Finnish telecommunications group, said yesterday it would dispose of the remnants of its lossmaking television production unit to Canada's Semi-Tech Group, finally getting rid of an operation that has been a thorn in the side of its rapidly-growing mobile telephony business throughout the 1990s.

The two companies said they had reached an agreement in principle that Semi-Tech's Hong Kong-based investment company would take over Nokia's TV manufacturing plant in Turku, Finland, its international TV sales network and the machinery and equipment at Nokia's TV factory in Bochum, Germany, which is being closed.

No financial details of the proposed deal were disclosed. But Nokia, the world's second largest maker of mobile telephones, said the total cost of shutting down the German operations and divesting the rest of its TV production was unlikely to reach the FM2bn ($426m) it wrote off in 1995 against its exit from the TV business. It expects no extra charges in 1996.

The withdrawal from TV production will come as a relief to Nokia investors. The company kept the operations while divesting non-core units over the past four years because it believed there could be long term synergies with its telecoms business.

But renewed losses last year, which contributed to a slide in Nokia's performance in the later part of 1995, finally persuaded it to get out. The only remaining consumer electronics business will be multimedia terminals, which account for only 10 per cent of group turnover – expected to approach FM50bn this year.

News of the divestment came a day after Mr Jorma Ollila, chief executive, said he was confident of an upturn in Nokia's performance in the second half of the year after problems in its mobile handset division caused a slump in first-quarter profits from FM1.35bn to FM399m.

Semi-Tech said Nokia's TV operations would complement its existing Akai and Sansui consumer electronics brands. The group also controls Singer of the US, one of the world's top sewing machine groups, and Germany's Pfaff, a leading European sewing machine maker.

The takeover will not include the 1,200 Nokia TV workers in Germany affected by the Bochum shutdown. The operations being acquired by Semi-Tech had sales last year of about FM2bn. Semi-Tech, which will be able to use the Nokia name for TVs until 1999, said it planned to sell up-market Finnish-made TVs in Asia.

NEWS DIGEST

Allianz Leben 'set for revenue growth'

Allianz Lebensversicherung, the life insurance subsidiary of Allianz, Europe's biggest insurer, said it expected to achieve real-terms growth in premium income in 1996 after a recovery in sales of new policies in recent months. Mr Gerhard Rupprecht, Allianz Leben chairman, told shareholders at the company's annual meeting yesterday that he expected the recovery to gain pace during the year.

Allianz Leben was aiming to improve its earnings power in the next few years, Mr Rupprecht said. The company achieved a net profit of DM4bn ($2.6bn) in 1995, down 4.3 per cent from a year earlier. It said premium income from sales of new policies grew 14.3 per cent in the five months to May, boosted by demand for new products among younger customers. In a statement issued after the annual meeting, Allianz said new business was also lifted by corporate business. For the full year, the company said it expected "overall satisfactory business development," despite the continuing difficulty of the economic situation.

Allianz expected new sales to be driven by demand for pension products as the state pension system continued to come under pressure. The subsidiary appointed Mr Karl-Hermann Lowe as chief financial officer. Mr Lowe was previously chief financial officer at the company's UK unit, Cornhill Insurance Group. *AFX News, Stuttgart*

BP targets central Europe

British Petroleum is to launch a big expansion of its network of petrol stations throughout central Europe up to the end of the decade, aiming to build up to 275 outlets in an investment that could be as much as $600m. Most of the investment will be concentrated in Poland, where the company plans 150 stations, BP executives said yesterday in Prague.

The company so far operates 32 outlets in Poland, the Czech Republic and Hungary. BP is planning to spend some $60m in the Czech Republic and Slovakia to build up to 50 stations. This project, unlike its operations in other countries in the region, is a joint venture with the merchant bank Robert Fleming and the US investment company Capital Group, which was set up more than two years ago.

In April, BP paid Kc211m ($7.5m) for a liquefied petroleum gas bottling plant in the western Czech city of Pilsen, which it plans to use as a base for expansion of gas sales. The total investment in the region includes up to $40m to expand the LPG market.

Mr Sten Nielsen, general manager of BP Czech Republic, said LPG currently accounted for only 2 per cent of the Czech energy market. "It is squeezed between coal and oil but it is growing very rapidly," he said. *Vincent Boland, Prague*

Huhtamaki ahead in first period

Huhtamaki, the Finnish consumer products group, overcame a slight fall in sales to post a 35 per cent increase in pre-tax profits, from FM80m to FM108m ($23m), in the first four months of 1996. The company attributed a slight decline in turnover, from FM2.6bn to FM2.5bn, to the depressed collectable cards market and slow US confectionery sales. However, operating margins at its Leaf confectionery unit benefited from cost cutting although sales slipped from FM1.4bn to FM1.37bn.

An exceptional expense of FM160m was booked to cover the restructuring and an accelerated exit from the Donruss collectable cards division, whose main businesses were sold in April. The company said a "substantially higher" exceptional gain would result from the impending sale of its Leiras pharmaceuticals unit. Operating earnings at Leiras improved on turnover up from FM275m to FM283m, and negotiations to sell the division were progressing.

The company forecast improved full-year profits despite moderate sales growth and only a partial contribution from Leiras. Earnings per share were FM2.7, against FM2 in the same period last year. *Greg McIvor, Stockholm*

Oddo & Cie plans 'family' fund

A French stockbroker plans to launch a FFr1bn ($192m) investment fund at the start of next year, which would be among the first in the country to specialise in family-controlled businesses. Oddo & Cie will invest in quoted companies in which an individual or family has a high proportion of their personal wealth and dominant control over nomination of the management.

It will also launch an index of the share movements of such companies, which it argues have substantially out-performed the rest of the French stock market in the past. The group said yesterday that it had already raised FFr200m from institutions for its "Oddo Generation" fund, and planned to approach individuals and foreign investors for its Sicav – or collective investment – fund. *Andrew Jack, Paris*

BCH cool on consolidation

Mr Angel Corcostegui, chief executive of Banco Central Hispanoamericano, one of Spain's biggest banks, yesterday said further consolidation in Spain's bank sector could be ruled out as a means to increasing profitability.

Speaking at a conference organised by brokers FG Inversiones, Mr Corcostegui said it was possible Spain would start a second round of consolidation in its banking sector, though perhaps not for another two or three years.

He said the situation in Spain's bank sector at the moment was very interesting, noting that as interest rates came down sharply and competition became increasingly fierce, profit margins were coming under pressure. Mr Corcostegui said this had led a number of banks to increase their industrial holdings and expand abroad as a means of reinforcing profit growth.

He said BCH planned to reduce its 49 per cent stake in Sociedad Azucarera de España, but did not provide details on a date or buyer. Générale Sucrière, a subsidiary of France's Saint Louis group, already has a 20 per cent stake in Azucarera, and has expressed an interest in acquiring all or part of BCH's stake, but the Spanish government has said it would oppose such a sale. *AFX News, Madrid*

Revamp for Russian oil – if vote allows

Russia's energy sector is likely to see a radical reshaping, according to recent annual meetings of the country's biggest privatised oil companies. But presidential elections on June 16 could affect their plans.

Lukoil, the biggest Russian oil group, seems determined to open itself to international investors and expand in the Caspian Sea and North Africa.

The company already has a strategic partnership with Atlantic Richfield, the US oil group, and claims 16 per cent of its shares are now held by US investors in the form of American Depositary Receipts.

Mr Vagit Alekperov, Lukoil president, said it intended to seek a listing in New York next year and sell a further 15 per cent of its equity. He forecast net profits would rise to Rbs3,500bn ($700m) this year from Rbs2,400bn in 1995.

Despite the sharp rise in Lukoil's share price this year, Mr Alekperov says the company is still too lowly valued for a big rights issue. "We forecast that the price of our shares will rise several times after June 16," he says.

Yukos, the second biggest oil company, with annual sales of $5bn, has effectively merged with Menatep Bank, which controls 78 per cent of its shares and has four seats on the 15-strong board.

The group intends combining the two parties' industrial and financial skills. Menatep, one of the more aggressive Russian commercial banks, has put in a sizeable team to improve Yukos's financial disciplines and cashflow.

Yukos appears more nationalist-minded than Lukoil and is seeking to raise capital without foreign partners. "In two years, such large Russian companies as Yukos will be able to raise capital on the international markets independently of foreign operators," says Mr Mikhail Khodorkovsky, Menatep's 32-year-old president, who heads the Yukos board.

Companies fear a victory by Gennady Zyuganov, the Communist Party leader, in this week's elections could threaten Russian property rights

Surgutneftegaz has been the quietest of the three big companies but has done most to restructure its operations.

Mr Vladimir Bogdanov, the group's famously prickly chairman, has focused on improving the group's management and upgrading its production and refining activities.

"Surgutneftegaz's strategy is based on the assumption that the company needs to have a very strong domestic financial base. The company has gone a long way in establishing tight management controls," said Mr Igor Tsukanov, chairman of CentreInvest, a consulting company which has worked closely with Surgutneftegaz.

At a rare press conference last week, Surgutneftegaz signalled a greater willingness to co-operate with western partners, saying it would hold talks with Elf Aquitaine over the next few months and may issue ADRs by the year-end.

But Mr Bogdanov says victory by Mr Gennady Zyuganov, the Communist party leader, in this week's elections, could threaten Russian property rights. Mr Zyuganov's economic programme suggests he would force oil and gas companies to lower prices to help stimulate industrial output.

John Thornhill

Disney throws Herculean clout behind ABC

Poor ratings and increased competition have forced the network's new owners to rethink programming

Walt Disney, under a cloud over poor ratings at ABC television since it bought the Capital Cities/ABC group last year, has laid out plans for the revival of the network.

Presented by Mr Michael Eisner, Disney chairman and chief executive, and Mr Michael Ovitz, president, at a meeting of affiliate station executives in Florida, the package includes a stronger focus on family entertainment and the full force of the Disney organisation's marketing clout.

ABC, until recently the top-rated US network, ended last season ranked behind NBC and CBS. Its performance, which some analysts refer to as a "cyclical dip", has cast a shadow over the group at a time when it faces intensifying competition.

The challengers include DreamWorks SKG, the new multimedia company established by Hollywood film director Mr Steven Spielberg, record company founder Mr David Geffen and Mr Jeffrey Katzenberg, an embittered ex-Disney executive currently suing his old employer; MCA, a leading Hollywood studio being revitalised under the control of Seagram, the deep-pocketed drinks group; and the soon-to-wed Time Warner and Turner Broadcasting System.

The competitive squeeze comes at a time of rumoured conflict at the top of Disney – apparently feathers were ruffled during the assimilation of ABC and the arrival last October of Mr Ovitz, the former top Hollywood talent agent brought in by his close friend Mr Eisner.

But if Mr Ovitz has trodden on some toes, he has also made some promising moves. He has been closely involved in re-programming ABC to rebuild its traditional family format, with more drama for women who often watch with their daughters. Proposals for a 24-hour news service have been dropped, and replaced with round-the-clock sports news to attract the family males.

The pattern echoes that of News Corporation's *Fox*, a newcomer network with strong appeal to 18 to 49-year-olds, the advertisers' favourites.

Mr Ovitz has also made some promising appointments – at ABC and elsewhere in the group. Newcomers to TV management include Ms Geraldine Laybourne, a leading specialist in children's and youth programming hired from Viacom's Nickelodeon subsidiary.

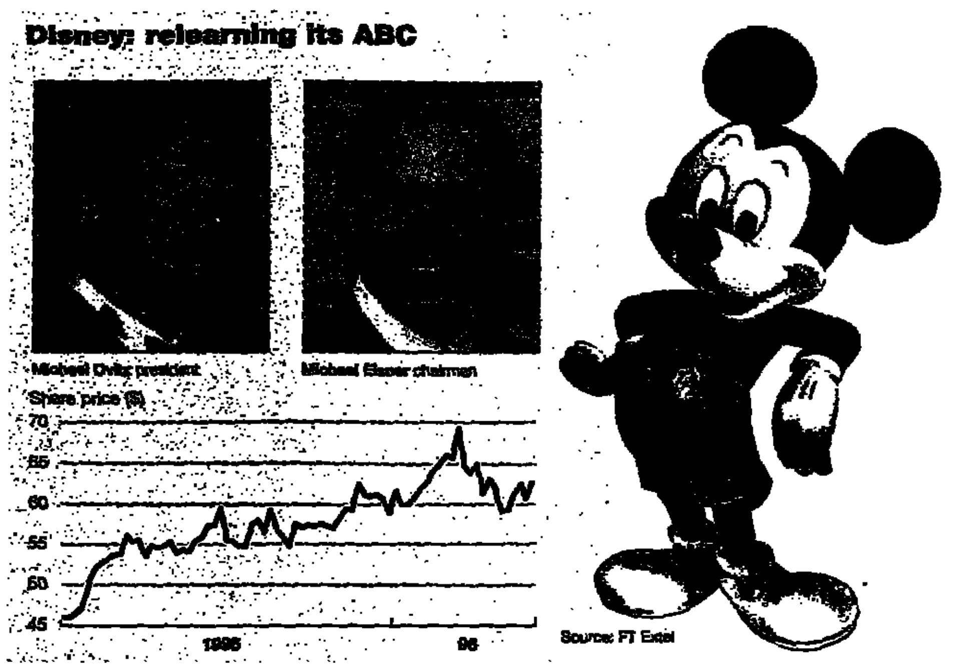
Mr Ovitz is also understood to have an option on the services of NBC's top entertainment programmer, Ms Jamie McDermott. Mr Alan Cohen, ABC's new marketing head, was poached three months ago from NBC.

Mr Ovitz's autocratic management style (as head of the CAA talent brokerage, he was known as the most powerful man in Hollywood) may have unsettled some of Disney's old-stagers, but analysts reckon his presence is a plus in a creative company which, by Mr Eisner's reckoning, needs to introduce up to 90 new products a year.

Mr Ovitz has also been instrumental in bonding the Disney brand with Coca-Cola and McDonald's, its peers in the global consumer market. The first link was the transfer of an unusual arrangement he brokered in his previous career as head of the CAA agency. Disney and Coca-Cola now share ownership of an advertising agency with just one client – The Real Thing.

The more recent, exclusive Disney/McDonald's marketing agreement broke new ground. It links two of the world's best known leisure brands in a 10-year relationship during which Disney properties and characters will be featured in the ubiquitous hamburger house's promotions.

As for the film business, recent additions to the Disney team include Sean Connery, the actor, and Mr Martin Scorsese, the director. Also, the co-founders of Miramax *(The Crying Game, Il Postino, Pulp Fiction, Trainspotting)* were last month contracted to continue running the group's in-house "independent" film studio for another seven years.



Disney has a welter of promising film properties in the pipeline. First out, later this month, will be the animated feature, *The Hunchback of Notre Dame*, to be followed by a recycled live-action version of *101 Dalmatians*. Next year's animation programme will be spearheaded by *Hercules*.

Toy Story, the first totally computer-generated animated feature, which is still breaking records after more than six months on release, will be followed in 1998 by *Bugs*, a digitised retelling of *The Magnificent Seven* with insects as the stars.

This flood of product helps explain why investment analysts are not too concerned – at least for now – about the slip in ABC's ratings and the recent management friction.

Their consensus forecast is for a rise of almost 20 per cent in earnings per share this year, with better to come in 1997. And some reckon Disney can maintain long-term growth rates of 20 per cent.

The new films should also help to keep the competition – established and up-and-coming – off-balance.

Mr Edgar Bronfman, head of Seagram, warned last week that it could take a couple more years to whip MCA into shape.

As for DreamWorks SKG, whose output is still tiny, the potential threat to Disney in the field of animation will become clearer when it releases its first animated feature effort.

The work, an epic adventure depicting the early life of Moses, will either emerge next year, when it will have to slug it out with Disney's *Hercules*, or in 1998 when the magnificent seven *Bugs* will be waiting in ambush.

Christopher Parkes

Report quashes Vinik bond sale rumours

By Maggie Urry in New York

Speculation that Mr Jeffrey Vinik, portfolio manager of the $56bn Fidelity Magellan Fund, sold some of his bond holdings in April before announcing his resignation in May, has proved unfounded. However, this is only likely to fuel rumours in the market that the new manager, Mr Bob Stansky, who took over running the fund on June 3, has been selling its bonds.

The mutual fund group, the largest in the US, yesterday published its portfolio weightings for the end of April. These showed the Magellan fund still held 19.2 per cent of its assets in bonds, with a further 10 per cent in cash. The weightings were little changed from the end of March.

Performance figures were also given up to the end of May. These showed the Magellan fund slipping further behind the equity market, with the fund's total return to May 31 at 2.91 per cent, against an S&P 500 index return of 9.68 per cent. Its one-year ranking by Lipper Analytical, which produces league tables for mutual funds, had fallen from 387th at the end of April to 547th out of 581 funds surveyed at the end of May.

Fidelity publishes its funds' asset allocations about six weeks in arrears – the market is eagerly awaiting figures for the end of May and June to see whether it has changed course since Mr Vinik announced his departure and Mr Stansky was nominated his successor.

Mr Vinik's resignation last month surprised the markets, although he is staying with Fidelity until the end of this month. He plans to set up his own money management firm. The fund, by far the largest mutual fund in the US, is closely watched on Wall Street because of its size and its history of good performance.

Although the Magellan fund primarily invests in equities, Mr Vinik moved heavily into bonds in November and December in anticipation of a fall in the equity market after last year's sharp rise. However, so far in 1996 the switch has pulled down the fund's performance as the bond market has sunk and equities have continued to rise.

Speculation that Magellan was selling its bonds have circulated in the market since Mr Stansky took over. The bond holdings total more than $10bn, which would be a significant amount for the market to absorb in a short space of time.

The sector weighting figures show Mr Vinik continued to buy energy stocks in April while reducing the fund's proportion of finance sector equities.

Jeffrey Vinik: plans to set up own money management operation

NEWS DIGEST

Deutsche Bank US arm hires Allardice

Deutsche Bank North America, the US subsidiary of the German bank, has hired Mr Robert "Barry" Allardice as chief operating officer. Mr Allardice will report to Mr Carter McClelland, who joined DBNA in September and became president of DBNA in February. The two worked together at Morgan Stanley, where Mr McClelland was chief administrative officer and Mr Allardice chief operating officer for global equities.

Mr Allardice, 49, retired from Morgan Stanley three years ago. Since then he has been a consultant to DBNA, working with Mr John Rolls, the former president, on the bank's strategy. DBNA co-ordinates the US activities of the bank and of Deutsche Morgan Grenfell, the investment banking subsidiary.

DBNA has expanding aggressively in North America. It said yesterday Mr McClelland and Mr Allardice would "work on the development and implementation of DBNA's North American strategy". The firm has been ruffling feathers on Wall Street with high-profile hirings of leading executives from other firms, notably Morgan Stanley and Merrill Lynch. Last week, ING Barings sued Deutsche Bank for poaching 44 emerging markets experts. *Maggie Urry, New York*

US equity funds robust

Money continues to pour into US equity mutual funds, according to estimates from the Investment Company Institute, the mutual fund industry association. Flows into equity funds so far this year have almost reached the previous annual record. In May, flows into equity funds totalled an estimated $22.5bn, down from the April total of $26.3bn and January's record of $28.9bn, but still the third-highest monthly total on record. This year, an estimated $121bn has been put into equity funds, almost as much as the record $130bn invested in the whole of 1993.

Cash flows into bond funds were about $500m in May, the same as in April. Bond funds saw heavier inflows at the start of the year, but the fall in the bond market has dampened new investment. *Maggie Urry*

Devaluation hits Avensa

Avensa, Venezuela's airline, yesterday reported consolidated first-quarter pre-tax profits of Bs1.48bn ($3.13m). It recently reported 1995 profits of Bs3.4bn. Subsidiary Servivensa, which serves international destinations, generated nearly 60 per cent of the profits. Avensa says currency provisions reduced 1995 profits by Bs3.1bn, following last December's devaluation of the bolivar. The company is selling nine aircraft to resolve cash flow problems.

■ American Airlines yesterday sued the Venezuelan government and the central bank for $3.86m of currency exchange losses allegedly incurred last year as a result of the government's exchange rate policy. In the case presented before Venezuela's supreme court, American said it suffered losses because the government is applying an exchange rate of Bs290 to the dollar, while ticket sales during July, August and September were at an officially-fixed rate of Bs170. *Raymond Colitt, Caracas*

Caterpillar lifts dividend

Caterpillar, the world's largest earthmoving machinery maker, is raising its quarterly dividend to 40 cents a share from 35 cents. Caterpillar said yesterday it expected sales in 1996 in North America to be "somewhat stronger than anticipated". *AFX News, Illinois*

ASX considers extended trading hours

By Nikki Tait in Sydney

The Australian Stock Exchange is considering extending its hours to "perhaps even near-24 hour" trading, in an attempt to attract international investors and secure a place in the increasingly global trading environment.

Mr Richard Humphry, ASX managing director, said in a speech to the American Chamber of Commerce yesterday that it was increasingly necessary "to have our market open to coincide with trading on major markets like New York and London".

He added that a move to more "user-friendly hours" for overseas investors would be backed up by trading terminals in overseas cities, which hooked into the ASX's computerised trading system. "There are still some regulatory issues that need to be dealt with before we implement this project, but none that look insurmountable," he commented.

The ASX has long been concerned about the role of a medium-sized exchange as technology and internationalisation of markets advances. It estimates that as much as 20 per cent of trading in Australian stocks already takes place outside Australia, with most of the country's large companies having listings on overseas exchanges. A number of smaller mining stocks have also gravitated to the Vancouver exchange.

Mr Humphry described the ASX's efforts to attract Asian listings as only "quite successful", and admitted that the 35 Asia-based companies which trade on the exchange are "relatively small companies". But he added that the ASX was confident it would have "much more substantial listings in the very near future".

He also warned that as the pool of superannuation money grew sharply in Australia, much of it was likely to flow overseas, because of the lack of domestic opportunities.

"I would think inevitably we're going to have more than half of it go offshore, but that will be if we're lucky. At the moment, I'd say it has to be nearly all of it, and I don't think that's really healthy," he cautioned.

Mr Humphry held out the possibility that the ASX could be "corporatised" – turned into a shareholder-owned organisation – in the foreseeable future. "It's a prime issue that the directors will have to face in this year's round of strategic discussions," he said.

Richard Humphry: ASX could be 'corporatised'

Offerings for Thai projects planned

By Ted Bardacke in Bangkok

The Thai government and Hong Kong-based Hopewell Holdings will soon test investors' appetite for loss-making or delayed transport schemes, by seeking public offerings for their projects now that initial financing difficulties appear to be easing.

The loss-making Don Muang Tollway, a 16.5km road from inner Bangkok to near the city's airport, will make at least its third attempt this decade to list, as part of a government takeover scheme, approved by the Thai cabinet late on Tuesday.

One reason for the road's losses was government refusal to honour the terms of its concession agreement, notably a provision calling for the destruction of a parallel free road.

As compensation, the Thai government has agreed to take a 40 per cent stake in the road at a cost of $118m. Current shareholders, including Dykerhoff & Widmann of Germany, will be required to inject an additional $61m into the company and seek another $148m in debt to finance a 5.7km extension of the road and part of the connection to another toll road.

The government will also help refinance the company's loans (which have not been serviced for months), has authorised toll increases and will start a new 25-year concession, a move that for legal and financial reasons is crucial to a public listing. The government will also cut its stake in the project to less than 30 per cent by selling shares to other shareholders at a price 10 per cent less than the public offering price.

The public offering is likely early next year.

Hopewell's plans to list a portion of its much-delayed $3.2bn mass transit project in Bangkok also appear to be progressing, as a consortium of Japanese banks has agreed to fund some of the project's initial construction.

Hopewell last week awarded more than $400m of civil works to Germany's Philip Holzmann (Thai) for the eastern part of project. In the next few weeks the two companies will finalise a deal to share the management of construction on the project's northern spur at a cost of $1.4bn, according to Mr Bob Kevorkian, managing director of Philip Holzmann (Thai).

Philip Holzmann (Thai) will not take any equity stake in the project, he said.

But Peregrine Securities is already looking to raise nearly $600m for the project, via a public offering scheduled to be completed about 18 months before the system begins to earn its first revenue in June 1998.

Sharp rise in profits at India Cements

India Cements saw its net profit for the year to March jump to Rs809m ($23.2m) from Rs472.8m in the previous year. The company, which is part of the Sanmar Group, said its sales and other income rose to Rs8.06bn from Rs6.29bn last time, AFX News reports from Bombay.

The company said record levels of production, greater efficiency, buoyant demand for cement and improvements in the shipping freight business all contributed to increased profits.

It added that production of cement during the year was 2.58m tonnes, compared with 2.37m tonnes in the previous year, representing capacity utilisation of 99.5 per cent.

Production levels at the Sankarnagar and Sankari plants continued at above-rated capacity of 106 per cent and 101 per cent respectively, and the performance of the Chilamakur plant increased from 71 to 92 per cent.

India Cements said the scheme for the upgrading and modernisation of the Chilamakur plant was in progress.

It added that domestic sales of cement increased by 10.5 per cent to 2.56m tonnes but exports were restricted to 4,000 tonnes, well down from 60,000 last time.

The company said it was confident of improving its performance during the current year to March 1997. Production of cement during the first two months of 1996–97 was 400,000 tonnes with sales of cement at 421,000 tonnes.

It added that a new energy-efficient cement mill had been commissioned at its Sankarnagar plant and this should reduce power consumption.

Income from real estate and property development in 1995–96 was Rs30.3m, against Rs8.2m in the previous year.

Citic refocusing as a finance house

Chinese investment group plans to drop many industrial activities

As president of China's flagship conglomerate, Mr Qin Xiao of Citic might be considered Beijing's version of Lord Hanson. But though he knows all about the money that can be earned by buying up companies trading on low multiples, he says he prefers the models set by Korea's *chaebol* companies.

Some 15 months after he was promoted in a management reshuffle sparked by losses on futures trading by a Shanghai subsidiary, a new shape is emerging for China International Trust and Investment Corporation, as state-owned Citic is more formally known.

The group's main focus is now on financial activities, with a heavy emphasis on banking. Mr Qin says it has decided to narrow its industrial activities to a few important sectors such as telecommunications, power and construction.

In contrast to a company such as Hanson, it generally prefers to treat its stakes in non-financial companies as financial investments and not become directly involved in day-to-day management.

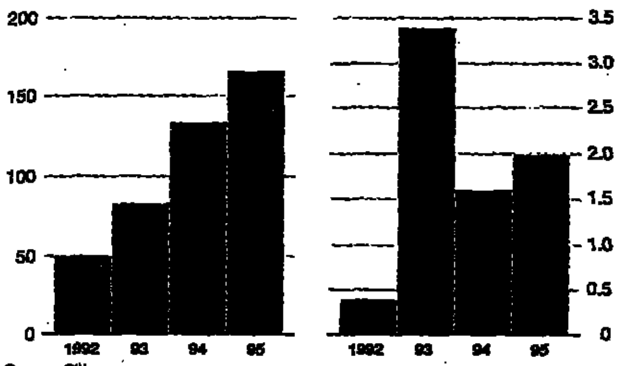
Mr Qin, 49, was previously head of Citic's Australian subsidiary. Along with Mr Wang Jun, the son of one of China's former revolutionary leaders and a long-standing Citic hand who was made chairman in the reshuffle last March, he has since been mapping out the company's future.

That review has left him convinced that Citic should consider itself primarily a finan[cial institution]. About three-quarters of the company's assets are financial ones, including non-banking investments.

Citic last year set up a securities house which it hopes will become a first-class merchant bank. It is applying for an insurance licence, and its commercial bank, Citic Industrial Bank which made a Yn1bn-plus ($120m) profit last year, ranks sixth in size after China's five large state banks.

"Our major effort, and our major profit, will come from financial activities, particularly commercial banking," says Mr Qin.

But the new Citic is likely to emerge gradually. It faces competitive pressures in its chosen specialist areas. Selling unwanted assets is not easy in China's thin capital market, and the group must manage its debt carefully. Mr Qin declined in an interview to put a precise figure on long-term debt but estimated it at around Yn25bn.



Source: Citic

Among his concerns is the disappointing pace of telecommunications liberalisation. Citic is heavily involved in the Unicom consortium which is developing China's second network and has been allocated mobile licences in four cities. But "as happened in other countries, the early stages of deregulation are quite painful. There is a lot of friction and the leading player still wants to maintain its monopoly position", he says.

Similarly, Citic Industrial Bank as a relatively new institution has less of a bad debt problem than traditional state banks.

That gives it a natural competitive advantage, but pressure from other large banks is making it hard to obtain new branch licences, Mr Qin says. It has 16 at present.

Meanwhile it is looking for a way out of textiles which he describes as a "low quality, low price business" because of competition from small township enterprises and fluctuations in the price of cotton.

Two large state enterprises, a former military factory in Shanxi province and a mining equipment plant in Henan originally built by the Soviet Union, have presented particular problems.

The military plant is still struggling to break even. But the mining equipment factory, which has diversified into areas such as steel plant equipment, is slowly improving. It expects to export some $60m to $100m in the next couple of years.

Citic is still prepared to oblige the government by helping out with rescuing and restructuring state enterprises. But it prefers a venture capital approach where it can add value and finance restructurings with a view to eventual flotation.

Mr Qin admits that, apart from the commercial bank, Citic is probably only breaking even in its activities run out of mainland China. Profits therefore depend heavily on its overseas units, including the Hong Kong-listed Citic Pacific in which it has a 42 per cent stake.

Citic Pacific is a leading shareholder in Cathay Pacific, Dragonair and Hongkong Telecom, as well as in several infrastructure projects in China.

Investors in the UK colony have been wondering how far Citic Pacific will flex its muscles and seek to build up stakes in strategic sectors there as 1997 approaches. But Mr Qin says that Citic Pacific is under no special instructions and does not have to consult Beijing on every decision.

Citic Pacific is already a large company, ranks seventh by market capitalisation in Hong Kong, and owns some good assets, Mr Qin says. "If they can maintain that level and achieve good returns, I think that is good enough."

One of the largest group challenges is the heavy debts of the parent company in Beijing. Group gearing at 89 per cent is reasonable for a financial services company that includes a bank. But debt service ate up so much of the parent's income that revenues of Yn5bn were required to reach last year's net profit of Yn2bn. If Citic decides to cut debt, it will have to stop its expansion. That way it could reduce parent company debt by 10 per cent to 15 per cent a year.

But restructuring means more than just selling unwanted assets, Mr Qin says. "You have to put resources into new areas."

While that happens over the next five years, the debt will be held steady, or at best reduced only slightly. Only after that will Citic start to focus on return rather than expansion.

Peter Montagnon, Tony Walker and John Ridding

NEWS DIGEST

Japan's chip makers 'likely to see falls'

The combined group pre-tax profits of six large Japanese electronics companies for the fiscal year to March 31 1997, are likely to fall 46 per cent from a year earlier due to tumbling prices of computer chips, Nomura Research Institute said on Wednesday. Nomura expects combined group pre-tax profits for the six companies to drop an additional 11 per cent in the year to March 31 1998.

The groups are Mitsubishi Electric, NEC, Hitachi, Toshiba, Fujitsu and Oki Electric Industry. Nomura analyst Mr Hideki Wakabayashi said there was a chance that Mitsubishi, Fujitsu and Oki might even post losses due to a slump in the chip market.

The average price of 16-megabit dynamic random access memories (D-Ram), the mainstream memory chip for personal computers, is expected to be below $17 in 1996-97, falling to below $12 in 1997-98, he added. *Reuter, Tokyo*

Indian paper group earns more

ITC Bhadrachalam, the Indian paper group which specialises in coated packaging board, reported a 17.46 per cent increase in gross profits to Rs614m ($17.54m) for the year to end-March on sales up 12.89 per cent to Rs2.66bn. Net profits were 9.12 per cent higher at Rs407m, against Rs373m. Exports rose to Rs324m from Rs311m a year earlier. The company plans to pay an annual dividend of Rs2.5 a share, down from last year's Rs3 a share.

The company said it has been hit by falling demand for paper in the second half of the year and a decline in dividend income from the wholly owned financial services company. In addition the frequent change in the product mix caused a marginal fall in production to 89,057 tonnes from 91,308 tonnes.

The company said its new paperboard plant at Bhadrachalam in Andhra Pradesh with capacity of 120,000 tonnes a year and requiring an investment of Rs5.24bn would start production in January 1997. The commissioning of the plant will make ITC Bhadrachalam the country's largest integrated paper producer. *Kunal Bose, Calcutta*

Ansett sees strong recovery

Ansett Australia, the Australian carrier, said yesterday it expected a "vastly better" financial performance in the 1996-97 financial year, after the current year's likely losses. Mr Hugh Thorburn, chief operating officer, said the 1995-96 result was expected to be "inadequate" but that "next year, we are certainly looking towards a profitable operation".

The airline is owned jointly by Mr Rupert Murdoch's News Corporation and TNT, the transportation group, although the latter is currently attempting to sell its holding to Air New Zealand. TNT has already warned that Ansett is likely to be loss-making in the current year, after earning A$51.6m (US$40.9m) in 1994-95. *Nikki Tait, Sydney*

Queensland banking plan

The Bank of Queensland yesterday made clear it did not intend to join the Queensland state government's scheme to create a regional financial services powerhouse. The plan was first disclosed at the end of May, and involves a merger between Suncorp Insurance, the listed Metway Bank, and Queensland Industry Development Corporation. The combined group would have assets of around A$21bn, and be Australia's fifth-largest financial services group.

It was subsequently suggested that Bank of Queensland, which is indirectly 44.4 per cent owned by the Queensland government, might also join the new grouping. But bank directors said yesterday they had decided against such a move. *Nikki Tait*

Aristocrat flotation

Australia's growing tally of listed gaming stocks is set to expand with the A$114m flotation of Aristocrat, the Sydney-based gaming machine manufacturer. The family-owned business, which built its first gaming machine by hand in 1953, is to make a public offering of 39.3m shares at A$2.90 each. This represents about 38 per cent of post-float equity, putting a price-tag of around A$300m on the group overall. Its machines operate in more than 20 countries. *Nikki Tait*

Goldman Sachs link-up

Goldman Sachs, the US-based investment bank, is to link with Sydney-based Macquarie Bank on corporate advisory work in Australia and New Zealand. The two banks have committed to a formal co-operation agreement which will see them "co-operate where mutually beneficial and where clients needs' and preferences will be best met by a combination of the two parties' capabilities". *Nikki Tait*

COMPANIES AND FINANCE: UK

Granada surprises City with 19% improvement

By David Blackwell and Raymond Snoddy

Granada Group yesterday surprised the City with a stronger than expected first-half, reflecting good underlying growth in its traditional businesses.

Excluding Forte, which Granada took over for £3.9bn in January, profits for the 26 weeks to March 30 were 19 per cent ahead. This prompted some analysts to lift full-year forecasts by as much as £15m to about £455m ($696m).

In the two months after the bid, the hotels made £27.1m of profits before interest and tax, 89 per cent up on the comparable figures for February and March last year. The hotel profits helped to lift Granada's total pre-tax profits for the half by 19 per cent to £183.3m (£154.5m) on sales up from £1.1bn to £1.5bn.

Malcolm Watson

Gerry Robinson (left) with Charles Allen yesterday

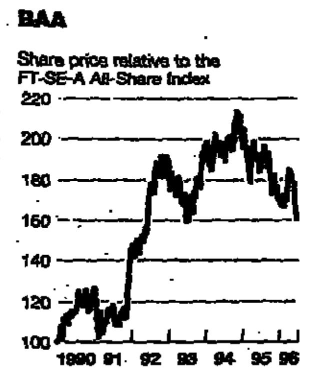
Mr Gerry Robinson, chairman, said the results would lay the ghost that the group had needed to buy Forte for growth. But Forte had performed much better than expected – "vindicating our confidence in the bid and the confidence of the shareholders who backed us."

Mr Charles Allen, chief executive, described Forte as "a good solid business that offered excellent headroom for growth". The £100m of savings identified during the bid "can and will be achieved", he said, adding that £25m of the target had been achieved already by better buying alone.

The group is committed to selling the portfolio of 17 Exclusive Hotels, and has sent the sale memorandum to 75 potential buyers. The £947m approach by Sir Rocco Forte to buy some of the Exclusive hotels along with the Méridien chain was dismissed as unrealistic.

LEX COMMENT

BAA



Here is a mystery: why is BAA still trading at more than 14 times this year's expected earnings when almost every other regulated monopoly rates below 10? The conventional explanation – that BAA's retailing side makes it sexier – is unconvincing. Regulation, after all, caps returns on BAA's UK airports business as a whole. So in theory, retail growth will only galvanise earnings if it beats what the regulator assumed. In practice, this is what has happened: even if profits have not bettered the regulator's assumptions by much, the regulator still overestimated the size of the capital base. As a result, even the company admits that results like yesterday's point to a 10 per cent return on that capital base, well above the regulator's 7.5 per cent target. The danger is obvious. BAA is in the throes of its five-year regulatory review. Even if the regulator simply cut returns back to 7.5 per cent – lenient by the standards of the recent gas review – it would hit the company's earnings. Yet it is difficult to reconcile this possibility with the current share price, even after its recent wobbles.

There is a case for the market's optimism. BAA has an unusual advantage: it can always mobilise support for a lenient outcome from its airline customers, by threatening to abandon Terminal 5. But such a threat looks pretty empty – especially since Terminal 5 could perfectly well be built by someone else. Investors are gambling on the regulator's continuing to allow returns comfortably above the company's cost of capital: they may be right, but it looks a pretty reckless bet.

WH Smith plans shops shake-up

By Christopher Brown-Humes

WH Smith yesterday moved to revitalise its position in the high street when it put plans for a sweeping overhaul of its retail shops at the centre of its long-awaited strategic review.

The shake-up, which includes more than 400 redundancies, will cost Smith £140m ($214.2m) in exceptional charges and £145m in goodwill write-offs. The review includes plans to expand Waterstone's and Virgin Our Price, the specialist book and music businesses, and develop airport retailing in the US.

It also embraces the recently-announced disposal of Smith's business supplies unit and its 50 per cent stake in Do-It-All, the lossmaking DIY chain, to Boots.

Mr Bill Cockburn, Smith's new chief executive, said: "We have a four-year agenda to build the group into a world class retailer."

The shares were unchanged at 484p.

Analysts said the shake-up was welcome but long overdue and Smith still had plenty to prove. One analyst said the group was still not doing enough to promote top-line sales growth and it could face further competitive assault from supermarkets.

The review was launched by Mr Cockburn five months ago after 18 months of poor profitability.

After the disposal of Business Supplies and Do-It-All, he said the top priority was to tackle the "rotten margins, high costs, inefficiency and flabby accountability" at the group's 550-strong retail chain.

This will involve a near 30 per cent cut in product lines, a much-reduced supplier network, revamped stores and - possibly - a store card to boost customer service. Stock write-offs will cost £28m and store revamp disruption up to £14m. Mr Cockburn said Smith was simply offering too many products for unsatisfactory profits. Cutting the range would free 10 per cent of selling space, equal to 50 new stores.

The company says it will bid for 40 retail airport sites in the US, but has no plans to expand the Wall, its US music retail chain, due to fiercely competitive market conditions.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alexanders	6 mths to Mar 31	59.3	(52.3)	0.009	(0.304L)	nil	(0.57L)	nil	-	nil	-	0.3
Ann St Brewery φ	Yr to Jan 28	76.6	(73.3)	6.18	(5.94)	38.47	(36.42)	13.52	July 12	12.52	18.52	17.52
BAA	Yr to Mar 31	1,253	(1,159)	418	(368)	30.5	(27.2)	7.125	Aug 20	6.375	11.25	10.125
Blick	6 mths to Mar 31	29.9	(28.1)	7	(6.05)	16.4	(14.19)	4.5	Sept 4	4	-	13
Bradford Property	Yr to Apr 5	49.1	(39.7)	25.6	(24.8)	11.86	(11.37)	4.3	Aug 3	3.95	7.8	7.15
Bristol Water Hlds	Yr to Mar 31	65.4	(61.1)	12.1	(9.68♠)	124.5	(95.7)	31.75	Oct 1	24.5	45.5	38.5
British Land	Yr to Mar 31	239.8■	(191.2■)	62.1	(49.1)	11.2†	(8.4)	5.77	Aug 27	5.48	8.55	8.12
Chemring	6 mths to Mar 29	40.9	(34.2)	4.47	(3.81)	12.06	(10.53)	3.76	July 31	3.58	-	10.9
City Site Estates	6 mths to Mar 31	5.37■	(5.27■)	0.508	(0.232)	1.21L	(3.08L)	nil	-	nil	-	nil
Expro Intl	Yr to Mar 31	82.2	(70)	14.3	(8.06)	17.6	(13.7✠)	4.7	July 30	-	7	-
Goldsborough	6 mths to Mar 31	32	(24.4)	3.16	(3.04)	6	(5.8)	1.32	July 15	1.2	-	3.9
Granada	6 mths to Mar 30	1,511	(1,119)	183.3	(154.5)	18.9†	(17.7)	4.235	Oct 1	3.85	-	11.75
Hardy Oil & Gas	Yr to Mar 31	63.3	(51.3)	5.96L♠	(27.2L♠)	5.8L	(24.6L)	1	-	1	1	1
Kay's Food	Yr to Mar 31	25.1	(9.14)	5.81L♠	(1.91L♠)	3.3L	(2L)	-	-	-	-	-
Mansfield Brewery	Yr to Mar 30	146.9	(133.9)	18.4	(17.4)	20.62	(19.46)	4.2	Aug 14	3.7	5.9	5.2
Meyer Intl	Yr to Mar 31	1,225	(1,303)	1.1♠	(51.6♠)	2.1L	(28.4)	7.3	Sept 2	7.3	11.5	11.5
Orbis	Yr to Mar 31	18.7	(8.37)	1.92	(0.198♠)	2.64†	(0.7)	0.675	Oct 23	0.4	0.925	0.525
Oriflame Intl	Yr to Mar 31	90.8	(81)	19.9	(15.8)	30	(25.2)	10	Sept 25	9.4	15	14
Seafield	Yr to Dec 31	13	(17)	3.8L♠	(0.193♠)	5.5L	(0.3)	-	-	-	-	-
Standard Platforms §	6 mths to Mar 31	0.721	(0.699)	0.428L	(0.315L)	1.4L†	(1.5L)	-	-	-	-	-
Stirling	Yr to Mar 31	98.4	(88.6)	6.1♥	(6.09♥)	4.86	(4.63)	1.57	Oct 4	1.45	2.2	2.05
Wilmington	Yr to Feb 29	25.2	(23.2)	2.71	(1.97)	3.11†	(2.13)	0.25	July 29	-	0.25	-
WT Foods	Yr to Mar 31	23	(22)	0.504	(1.59)	0.48†	(2.73)	0.85	Aug 30	2	1.35	2.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Limit	Yr to Mar 31	112.3	(95)	10.4	(8.62)	3.72	(3.08)	2.3	Aug 27	1.75	3.4	2.75
Schroder Split	3 mths to Apr 30	94.55	(90.58)	1.73	(1.63)	3.05	(2.88)	2	Jun 28	1.9	-	7.85

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. φAim stock. †On increased capital. ■Gross rental income. ✠Pro forma. ♠After exceptional charge. ♥After exceptional credit. §USM stock.

Celltech disposal to Swiss

By Jane Martinson

Celltech, one of the UK's biggest biotechnology companies, is to sell Celltech Biologics – its only profitable division – to Alusuisse-Lonza, the Swiss aluminium, packaging and chemicals group, for £50m ($76.5m) cash.

The market welcomed the sale, by far the biggest by a British biotechnology company, partly because it ends fears of further cash raising exercises. Celltech shares gained 37p to close at 645p.

Mr Peter Fellner, Celltech chief executive, said the deal would "materially improve the risk-reward balance" of the company in allowing it to concentrate on its therapeutic research and development operations. The money would help speed the testing of a number of products.

Some of the proceeds would be used to increase research and development spending from about £17m a year to £20m and the rest would add "security and flexibility".

The company's cash position would increase to some £50m by the end of this month. Mr Fellner said Celltech would also consider buying intellectual property programmes or even small research companies.

Biologics made a pre-tax profit of £2.1m in the year to September 30 1995.

COMPANIES AND FINANCE: UK

BAA rejects any break-up proposals

By Michael Skapinker, Aerospace Correspondent

BAA, the airports group, yesterday rejected proposals that it should be broken up and that the proposed Heathrow fifth terminal be put out to competitive tender.

Sir John Egan, chief executive, said the proposal last month by the House of Commons transport committee that London's Heathrow, Gatwick and Stansted airports should not all be run by BAA had failed to take account of international competition.

BAA had five runways in the south east of England – the same number as Schiphol airport in Amsterdam had on one site. The Monopolies and Mergers Commission is completing its five-yearly review of BAA. The group said last month that the commission had not asked it any questions about breaking up BAA. Analysts regard a break-up recommendation as unlikely.

Sir John said he did not think another company could be persuaded to build Terminal Five, which was the subject of a public inquiry. He said BAA would have to invest £1.5bn in the project.

Sir John Egan: £1.5bn needs to be invested in Terminal Five

He said BAA had originally wanted to enter into a joint venture with the duty-free business of Allders, which is to be sold to Swissair for £160m. When Allders suggested a sale instead, BAA offered £130m.

Tradepoint shares fall in Canada

By Christopher Price

Dealers were blaming the vagaries of the Canadian market yesterday for the sharp fall in shares of Tradepoint, the electronic stock exchange, which began trading on the Alternative Investment Market last month.

The company is traded on the Vancouver exchange, in addition to Aim, and a fall in the Canadian price recently led to a corresponding markdown by marketmakers in London. After dropping 50p to 135p on Tuesday, the shares remained unchanged yesterday.

There was uncertainty, however, over why the shares had fallen so sharply in Vancouver. Winterflood Securities, which is the only UK marketmaker in the shares, said it believed the drop had been prompted by the sale of a large tranche of shares by a Canadian investor.

Tradepoint intends to de-list from Vancouver in the near future and that was suggested as the probable reason for the sale.

But Williams de Broe, Tradepoint's financial adviser, said it knew nothing of a large seller and suggested the stock was the victim of the recent purge among Canadian investors on high-technology stocks and was subsequently marked down.

Lucas seeks to lift US Navy ban

By Tim Burt

Lucas Industries, the automotive and aerospace company, is today expected to ask the US Navy to lift a ban preventing it from bidding for new defence contracts – clearing the way for the sale of its US military equipment arm.

If its request is successful, Lucas has hinted that it would seek a joint venture partner and eventual buyer for Lucas Western Geared Systems, the business at the centre of its dispute with the Pentagon. The company last year paid the US government $88m after it admitted that Geared Systems had falsified quality control documents on gearboxes it supplied for the Navy's F/A-18 fighters.

Last year it paid a fine of $18.5m relating to the case.

Although it declined to comment on the likely outcome of today's meeting, Lucas is thought to be confident that products delivered under existing contracts were now meeting US Navy requirements.

The company, meanwhile, played down reports that it was facing fresh investigations into alleged lapses of quality control at its US defence arm.

The Wall Street Journal yesterday reported that the inspector general's office at the US Defense Department had launched two separate inquiries into complaints over Lucas military equipment.

The newspaper quoted a Navy spokesman as saying the service was "aware there is an active investigation involving Lucas" and that it remained concerned about quality issues. The Defense Department declined to confirm or deny the report.

Lucas, which said it was unaware of any further investigations into its Geared Systems business, pointed out that the inspector general's office was considering some 1,600 complaints against a number of companies.

The controversy is not expected to disrupt its forthcoming merger with Varity Corporation of the US.

NEWS DIGEST

Expansion fuels Oriflame growth

An ambitious programme of international expansion helped lift annual pre-tax profits of Oriflame International, the door-to-door cosmetics group, by 26 per cent to £19.9m ($30.4m) on sales up 12 per cent to £90.8m.

During the year to March 31 the company started operations in India, Ecuador and Brazil, incurring start-up costs of £900,000. It is planning future expansion in Latin America and China.

Sales at Oresa, in which Oriflame has a 25 per cent stake, rose 60 per cent to £92m, with pre-tax profits up 80 per cent to £18m. The company entered new markets in Greece, Bulgaria and Lithuania, while Poland was its largest market. Mr Robert af Jochnick, chairman, said the company would continue its policy of growing organically, with no acquisitions or attempts to raise cash from the market.

Mr af Jochnick said lengthy delays in starting in India – where administrative problems have so far restricted the company to the Delhi area – were to blame for an increase in gearing, as the company had had to build up inventory in advance. He said the success of the move into Peru, where break-even point was achieved within six months of starting, was evidence that Oriflame would be able to increase turnover swiftly once it was established in India. *John Authers*

Microsoft blow for Adare

Shares in Adare, the Dublin-based business stationery and printing company, fell 52p to 488p in London after Microsoft said it would stop buying computer manuals from its subsidiary Mount Salus Press. The phasing out should be completed by September.

However, analysts said revenues from the printing of computer manuals had been expected to decline as hard copy is replaced by CD-Rom. Forecast pre-tax profits for the year to April 1997 dropped from about I£9.75m ($15.14m) to I£9.2m. It reports the year to April 1996 on Monday.

Changes to indices

United News & Media, mobile phone group Orange and retailer Next are to join the FT-SE 100 index in place of Foreign & Colonial Investment Trust, Greenalls Group and Rexam. The changes, on Monday June 24, were approved yesterday by the committee which oversees the FT-SE Actuaries UK indices.

The FT-SE 100 consists of the largest UK companies by market capitalisation. United News & Media enters following its merger with MAI, which went unconditional in April. Orange floated in March .

Newcomers to the FT-SE Mid 250 and FT-SE-A 350 indices are Railtrack Group, Millenium & Copthorne Hotels, Blenheim Group and Chiroscience Group. Excluded are Vosper Thornycroft, Merchants Trust, London Merchant Securities, Edinburgh Dragon Trust and Dunedin Worldwide Investment Trust.

The committee also approved the inclusion in the FT-SE SmallCap and FT-SE Actuaries All-Share from June 24 of SkyePharma, Harvey Nichols Group and Schroder Ventures International Investment Trust.

Separately, the committee announced that Renishaw will enter the Mid 250 Index from today in place of Midlands Electricity, which has been taken over by Avon Energy Partners.

● Changes announced on Tuesday to the sectoral classification of BZW Endowment Fund, Finsbury Technology Trust, Geest, Henlys Group, London Pacific Group, Murray Emerging Economies Trust and Umeco will take place on July 1.

COMMODITIES AND AGRICULTURE

SFA confirms it is closely watching LME turmoil

By Norma Cohen and Kenneth Gooding

The UK Securities and Futures Authority, the self-regulatory body for commodities futures trading, confirmed yesterday that it was closely watching the present turmoil in the London Metal Exchange's copper market. Official concern about the volatile state of the market is so great that it is believed there have even been discussions about it between government representatives of the UK and Japan.

The SFA made it clear it was monitoring the market in case the extreme price variations seen in the past few trading days caused financial casualties among LME members. It was also watching to see if any trading rules had been broken.

"The SFA is properly concerned that its regulated firms are able to withstand the pressure and we are monitoring the situation for any instances of improper behaviour," an official explained.

Mr David King, LME chief executive, revealed the exchange "has been in continuing contact with other regulatory authorities" as a result of inquiries the exchange launched into its copper market in November last year. At that time there were protests about a squeeze that resulted in big premiums for immediate delivery.

Mr King was speaking after an LME board meeting yesterday where the copper situation headed the agenda. International disenchantment with the state of the market is widespread. The International Wrought Copper Council, which represents copper fabricators around the world, contacted the LME to express concern about the turmoil and the effect it might have – and might already have had – on the LME's role as a global copper price reference point.

In a letter to Mr Raj Bagri, LME chairman, Mr Tetsuro Kawakami, chairman of the IWCC and also of Sumitomo Electric, suggested that "bigger forces are at work than there used to be in the past", said an IWCC official. "We want to be certain that the LME is able to manage these forces to keep the market orderly."

The LME's Mr King said his board "recognises and shares the concern expressed with regard to the price volatility of its copper contract during the past few days".

Last Friday Mr King said the LME was "taking steps to address the situation". But he would not be drawn on what those steps might be. "Anything I say is likely to move the market in one direction or another," he commented.

Options-related selling sent the copper price down to US$2,020 a tonne in stormy early trading yesterday but the afternoon was calmer and metal for delivery in three months in after-hours trading was up $65 at $2,165. Buyers were having to pay a premium of $195 a tonne for immediate delivery, up $35 from Tuesday.

Pakistan set to grasp farm tax nettle

Today's budget could herald the end of agricultural exemption, writes Farhan Bokhari

Pakistan's annual budget, which is due to be announced today is expected to see renewed efforts by the government of Ms Benazir Bhutto, the prime minister, to tax the country's wealthy landowners. Mr Makhdoom Shahabuddin, the minister of finance, said as much last weekend.

The move is likely to provoke a bitter struggle between the government an the country's politically powerful agricultural lobby, which continues to dominate the parliament and many areas of government, independent analysts say.

Pakistan's controversial policy of not taxing the landowners has emerged as a major issue for Western aid donors, especially as the country continues to seek external help for development programmes. A high powered International Monetary Fund mission that visited Islamabad last month told the government that future external lending to the country might be encouraged by a policy that brought rich landowners within the tax net, according to senior officials.

But the hands of successive federal governments in Islamabad, who negotiate all external loans, have traditionally been tied by the country's constitution, under which only the country's four provincial governments – Punjab, Sindh, North West Frontier and Baluchistan – are empowered to impose new taxes on the agricultural sector.

While the governments in Sindh, North West Frontier and Baluchistan have apparently agreed to introduce new legislation to collect an agricultural income tax, the Punjab, which makes the largest contribution to Pakistan's agricultural output, is still holding out.

"Without Punjab, any new income tax on agriculture is meaningless," says a senior government planner in Islamabad. Mr Shahabuddin has not said how the government would introduce such a tax in the absence of agreement from all four provinces.

Some officials say that the government may consider tying federal grants to provinces to their ability to generate more resources from various sectors, including agriculture. With three of the four provinces willing to tax agriculture, the focus may now be on the Punjab.

Such a step could provoke an outcry from the agricultural lobby, which dominates the 240-seat provincial assembly in Lahore, capital of the Punjab. Some opponents of the move, including provincial MPs loyal to the ruling provincial coalition government, which is backed by Ms Bhutto's party, say that many MPs would oppose the new tax effort, because it does not take account of the growing burden on farmers.

Many farmers complain that growing costs of electricity, chemical fertilisers, pesticides and agricultural equipment, have cut deeply in to their profits. "Costs have risen and profits have fallen. Agriculture is already unviable, more taxes will only increase its unviability," says a provincial MP in Lahore.

The federal government has found one way to bypass the provinces to some extent. The scope of a three-year-old federal agricultural "wealth tax", a tax on agricultural property, has been expanded.

The results however have so far not been encouraging. Last year, the government only collected Rs2.5mln (US$71,600) through the wealth tax. It plans to tighten the limit for basic exemption from wealth tax in today's budget in an effort to increase collections, senior officials say.

However, the wealth tax collection system has come under fire from many large landowners who say that widespread corruption among officials and staff responsible for collections, is the main cause of its failure. One anonymous member of parliament in Islamabad says: "Farmers have been abused by collecting officers. People have been harassed and bribes have been taken. This has only increased resistance to new taxes". Reports from many rural areas have suggested similar concerns.

Many businessmen are known to have evaded taxes by claiming that a portion of their business income came from farmland, and later claiming an exemption on that income. "Once rural areas come under taxes, this will tighten the net around those businesses who are evading taxes through agriculture," says a government minister who supports the move.

Government officials say that Pakistan's growing exposure to debt servicing, its need to maintaining a large defence force and its obligation to international lenders to cut down the federal deficit by a substantial margin during the next twelve months may force the government to put pressure on the provinces, especially the Punjab, to accept the change. But no one is certain of the consequences.

Analysts welcome Alcoa's surprise move to cut aluminium oxide production by 3.5%

By Kenneth Gooding

Analysts have welcomed an unexpected cut in alumina (aluminium oxide) production announced by the biggest producer, Alcoa World Alumina & Chemicals (AWAC). They suggest that it implies that the Aluminum Company of America will not reactivate temporarily shut-down aluminium production this year.

AWAC, 60 per cent owned by Alcoa, the world's biggest aluminium group, and 40 per cent owned by WMC of Australia (formerly Western Mining) is cutting production of smelter grade alumina by 350,000 tonnes. Analysts say this is about 3.5 per cent of its present operating rate of just over 10m tonnes a year.

"Alcoa clearly has decided not to reactivate its idled 300,000 tonnes of annual aluminium smelting capacity in the second half of this year and will thus need less alumina than previously anticipated," says Mr Jim Lennon, analyst at Macquarie Equities, part of the Australian banking group.

Mr Paul O'Neill, Alcoa's chairman, once said he would not give approval to re-start the group's shut-down capacity until London Metal Exchange aluminium stocks were at "zero" and apparently still stands by that view. He said after Alcoa's recent annual meeting: "Alcoa does not produce material that nobody wants and drive prices down".

Macquarie's Mr Lennon says the alumina cut seems to be in response to three developments:

● Much weaker spot demand for alumina, which has seen the price fall from a peak of US$320 to $340 a tonne in mid-1995 to $180. This is because the Chinese have been importing much less following production cuts in north-west China caused by power shortages. Mr Lennon says he previously expected China to import 1.5m tonnes of alumina this year but the total could be as low as 1m.

● A much weaker than expected aluminium market.

● A sharp rise in alumina production. He estimates that in the first quarter output of metallurgical grade alumina rose by nearly 9 per cent, well above the 6 per cent increase in aluminium production.

Mr Larry Kaplan, analyst at the Flemings Global Mining Group, suggests AWAC is likely to cut output at various high-cost locations or where the biggest freight savings can be made.

This would:

● Bring the overall market closer to balance and benefit existing alumina contracts linked to spot prices;

● Improve conditions for any future contract negotiations;

● Cut higher cost production and;

● Avoid subsidising third party metal output, which would simply add to any aluminium surplus.

He says: "The Alcoa Alumina move appears eminently sensible".

Weather hits paper prices

By Robert Gibbens in Montreal

North American prices for lightweight coated papers, used widely in magazines, advertising fliers and catalogues, have weakened sharply because of slower than expected demand and heavy stocks.

The big producers have quietly cut list prices for the key No 5 grade to about US$860 a ton from more than $1,000 early this year, analysts said.

"Producers hoped to hold the price at US$900 to $920 but winter was severe and spring delayed," said Mr John Duncanson, an independent analyst. These factors reduced advertising volume sharply.

Other analysts said European producers were offering rock-bottom deals on the US eastern seaboard, contributing to price instability.

US grain futures remain volatile

By Laurie Morse in Chicago

US grain futures prices remained volatile Wednesday as traders weighed the weather prospects for the country's leading feedgrain crop, maize, and digested fresh planting statistics released by the US Department of Agriculture.

Freakish weather has left many maize fields in Iowa, Indiana, Illinois, and Ohio too soggy to plant, even as farmers in the high plains region of the south-west harvest wheat fields so parched by an eight-month drought that yields in some areas have been cut by two-thirds.

As of Sunday, nearly 3.6m acres of maize remained to be planted in the midwest, and crop analysts said that even if the rains ended and the skies cleared for the remainder of this week, as forecast, growers would probably switch sowings to soyabeans, as the optimal time for maize planting has passed.

In statistics published yesterday, the USDA said wet weather would reduce acres planted to maize to 79m, down 2m from its previous estimate. That should trim this autumn's harvest to 9.125bn bushels. Last month the USDA had projected the harvest at 9.575bn bushels.

Analysts said even the new estimate was optimistic, because the USDA had assumed each acre would yield 126 bushels. "It will require nearly ideal conditions" to achieve the 126-bushel yield, said Mr Bill Biedermann, director for research for Allendale, a market analysis firm.

The USDA increased its estimate for US soyabean production, noting that farmers who could not plant maize would switch to soyabeans.

Maize prices fell yesterday, despite the reduced production estimate, which analysts said traders had expected. Instead, the markets focused on improved weather prospects for maize already planted, and on the fact that maize futures for December delivery had been unable to hold a contract high of $3.74 a bushel set on Tuesday.

"It's hard to get commercial users to pay $3.50 to $3.75 per bushel for corn [maize] this early in the season," said Mr Dan Cekander, director of grain research for FIMAT Futures, USA. Although the maize harvest begins in September, late plantings and unusually tight old-crop supplies have already focused attention on availability for the December futures position.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1460-61	1496-97
Previous	1476.5-77.5	1511-12
High/low	1457	1509/1490
AM Official	1455-56	1492-93
Kerb close		1504-05
Open int.	235,213	
Total daily turnover	101,126	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1235-45	1275-80
Previous	1245-55	1280-85
High/low	1230	1285/1270
AM Official	1230-35	1270-71
Kerb close		1270-80
Open int.	4,971	
Total daily turnover	1,842	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	792.5-3.5	797-7.5
Previous	812-3	812-3
High/low	798	809/796
AM Official	798-9	798-9
Kerb close		795.5-8.5
Open int.	34,139	
Total daily turnover	8,888	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7835-45	7946-50
Previous	7775-85	7886-95
High/low	7755	7950/7840
AM Official	7755-60	7860-70
Kerb close		7920-40
Open int.	45,632	
Total daily turnover	10,533	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6225-35	6210-20
Previous	6180-90	6180-85
High/low		6220/6160
AM Official	6205-15	6200-05
Kerb close		6220-25
Open int.	17,550	
Total daily turnover	3,954	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1011.5-12.5	1036-37
Previous	1015-16	1039.5-40
High/low	1012.5/1012	1041/1034
AM Official	1012-12.5	1036-37
Kerb close		1040-41
Open int.	73,153	
Total daily turnover	11,057	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2340-50	2145-50
Previous	2280-90	2100-20
High/low	2325	2180/2020
AM Official	2325-35	2130-35
Kerb close		2160-62
Open int.	196,488	
Total daily turnover	117,451	

■ LME AM Official £/$ rate: [illegible]

LME Closing £/$ rate: [illegible]

■ HIGH GRADE COPPER (COMEX): [illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET: [illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.): [illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.): [illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.): [illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.): [illegible]

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel): [illegible]

■ CRUDE OIL IPE ($/barrel): [illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls): [illegible]

■ GAS OIL IPE ($/tonne): [illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu): [illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls): [illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne): [illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel): [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel): [illegible]

■ BARLEY LCE (£ per tonne): [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel): [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb): [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton): [illegible]

■ POTATOES LCE (£/tonne): [illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point): [illegible]

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne): [illegible]

■ COCOA CSCE (10 tonnes; $/tonnes): [illegible]

■ COCOA (ICCO) (SDR's/tonne): [illegible]

■ COFFEE LCE ($/tonne): [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs): [illegible]

■ COFFEE (ICO) (US cents/pound): [illegible]

■ WHITE SUGAR LCE ($/tonne): [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs): [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs): [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs): [illegible]

VOLUME DATA

Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100): [illegible]

■ CRB Futures (Base: 1967=100): [illegible]

■ GSCI Spot (Base: 1970=100): [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs): [illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs): [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lb): [illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME: [illegible]

■ COPPER (Grade A) LME: [illegible]

■ COFFEE LCE: [illegible]

■ COCOA LCE: [illegible]

■ BRENT CRUDE IPE: [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel): [illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne): [illegible]

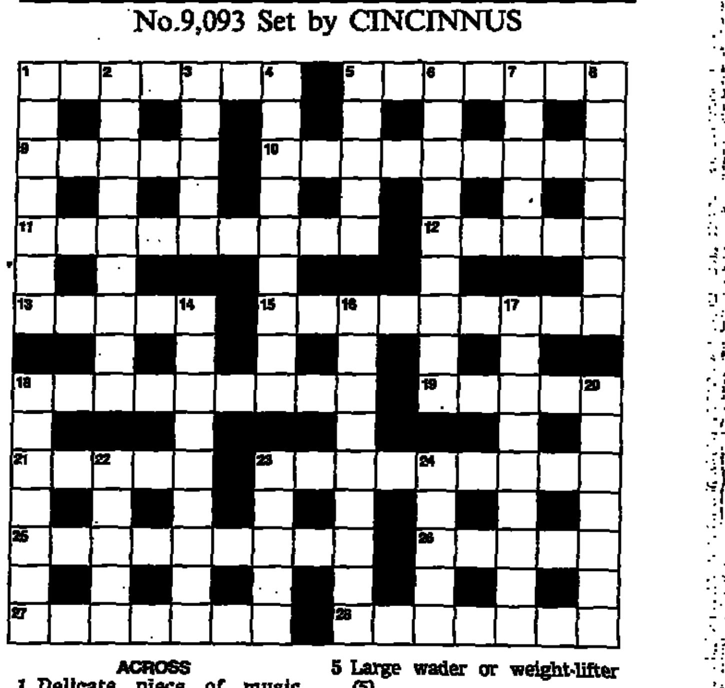
■ NATURAL GAS (Pence/therm): [illegible]

■ OTHER: [illegible]

JOTTER PAD

CROSSWORD

No.9,093 Set by CINCINNUS



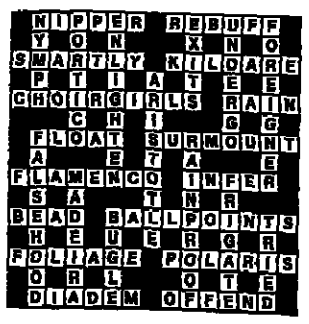
ACROSS

1 Delicate piece of music included in record (7)
5 Star with carbon copy upset everyone (7)
9 Burning fuel, initially, in a rage (5)
10 Bound, King George is bound to be vexed (9)
11 Fruit and cereal for Spooner's dog (5,4)
12 Gym kit obtained from Woolworth or Selfridges (5)
13 Let it turn a handle (5)
15 Grows wrinkled? (9)
18 Keep information from last back number (4,3,2)
19 Time's measure and constant times (5)
21 Twist reel into coils (5)
23 Something lacking in brief period in USA (9)
25 Attacker, very musical, left social worker (9)
26 Suppress the Spanish fish (5)
27 This red revolution is uncertain (7)
28 Loudspeakers compared with verbiage? (7)

DOWN

1 Father finds anything distressing (7)
2 Metal nail could be nutritious (9)
3 That is badly sited (2,2)
4 Such a rite may be celebrated in church (9)
5 Large wader or weight-lifter (5)
6 Some church people go in for writing material (9)
7 One left right out? (5)
8 Name successor in speech (7)
14 See Cassio play or dance (9)
16 Cartoon is about associations (9)
17 Topics I am prepared to make congenial (9)
18 Rope – not quite half-measure (7)
20 Complaint I shall put before the head (7)
22 Beginning to be ready for filming? (5)
23 Breaks bridges up (5)
24 In the forest wee things chirp (5)

Solution 9,092



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INTERNATIONAL CAPITAL MARKETS

Further steepening in US Treasury yield curve

By Lisa Bransten in New York and Antonia Sharpe in London

The US Treasury yield curve continued its recent steepening trend in early trading as a benign report on consumer prices supported the Wall Street consensus that the Federal Reserve will not raise interest rates next month.

The spread between the two-year note and the benchmark 30-year Treasury widened by a further 5 basis points to 80 points as investors transferred money from the long end of the curve to the short end.

Near midday, the long bond was down ⅛ at 86½ to yield 7.130 per cent, while at the short end of the maturity spectrum, the two-year note rose ⅛ to 99¾, yielding 6.324 per cent. The September 30-year Treasury bond future was ⅛ higher at 106¾.

There was little reaction in the market to the release of the Consumer Price Index for May, which the Labour Department said rose 0.3 per cent, exactly in line with economists' expectations. Core CPI, which excludes the volatile food and energy components, rose 0.2 per cent, also in line with expectations.

Mr Joseph Liro of CIBC Wood Gundy said he did not think the recent inflation data would give the Fed a compelling reason to raise interest rates.

"It will take clear and unambiguous signs of inflation to force the Fed to move," he said. "We think that evidence will develop during the third quarter."

Worries about retail sales data due today were one factor preventing the market from rising on the positive outlook on inflation, said Mr Woody Jay, head of global government bond trading at Lehman Brothers. The market could rally if the retail figure is weaker than expected, he said.

■ The Bundesbank council meeting today is set to focus attention on the German government bond market. There was some speculation yesterday that the central bank could revert to a variable repo rate from the fixed rate, which is currently at 3.30 per cent.

GOVERNMENT BONDS

However, seasoned Bundesbank-watchers said they did not expect the switch to occur until the Bundesbank had seen the money supply data for May. The data are not expected to be released until next week at the earliest.

"The Bundesbank has no scope to trim the repo rate until it has seen the money supply figures," said Mr Richard Reid, chief European economist at UBS.

The Bundesbank is expected to provide more details today on issuance of short-dated paper, a move designed to reduce the government's borrowing costs and to bring the German market into line with international practices.

Ms Phyllis Reed, European bond strategist at BZW, said that a greater supply of bonds with a life of less than two years would satisfy pent-up investor demand for such paper.

Ms Alison Cottrell, international economist at PaineWebber, forecast that the Bundesbank would issue six-month paper four times a year, with each issue totalling about DM10bn. "You will need about DM20bn of outstanding bonds to create the necessary liquidity," she said.

Although the short end of the yield curve is set to be the main news today, there are also hopes that the Bundesbank will make the long end more attractive, possibly by allowing 10-year and 30-year bunds to be stripped.

There is also a possibility of progress in the arbitration regarding the German public sector wage round. The committee could make its decision today. A low result, of about 1 per cent, would be welcomed by the market, and would remove the threat of strike action.

By contrast, bunds could be vulnerable to an unexpected result in the Russian elections. Mr Julian Jessop, European economist at Nikko, said the market was too complacent about the elections and warned that bunds and the D-Mark would fall if Mr Boris Yeltsin, the Russian president, did not produce a convincing victory.

Mr Graham McDevitt, international bond strategist at Paribas, said such a result would cause a flight of funds into Swiss francs and dollars.

Bunds were little changed yesterday, as the hoped-for bounce in US Treasuries, following the release of US inflation data, failed to materialise. On Liffe, the September bund future eased by 0.08 to 95.33 in volume of more than 102,000 contracts.

■ Other European government bond markets were also little changed apart from Spain, which rose on optimism about the government's economic plans which are designed to bring the budget deficit back on target.

The market could get an additional boost today from the May inflation figures. The spread over Germany stood at 254 basis points yesterday, a new recent low. The Spanish 10-year government bond future rose 0.24 to 98.90.

Long-term loan for Saint-Gobain unit

By Christopher Bobinski in Warsaw

Polfloat Saint-Gobain, the Polish subsidiary of the French glass manufacturer, has raised DM60m from a consortium of local banks led by the Warsaw branch of ING, the Dutch bank, and Poland's Export Development Bank.

The loan will help finance the construction of a DM180m greenfield float glass factory in southern Poland

The loan, to be repaid over eight and a half years with a two-year grace period, is the first long-term loan to be extended to a greenfield project in Poland by private banks without a guarantee from the foreign investor's parent company.

The interest rate is tied to the Warsaw interbank offered rate.

Other participating banks are Bank Gdanski, the Polish Development Bank, and IBP Bank, a locally incorporated joint venture bank whose stockholders include Banca Commerciale Italiana and Crédit Lyonnais.

The remaining funding for the project will be a DM30m loan from foreign banks and Saint-Gobain itself.

Saint-Gobain plans to produce 150,000 tonnes of float glass a year, challenging the dominant position in Poland of UK-based Pilkington.

Liffe link with CBOT delayed until autumn

By Richard Lapper, Capital Markets Editor

The Chicago Board of Trade and the London International Financial Futures and Options Exchange will announce a new start date for their trading link later this month, according to Mr Patrick Arbor, chairman of the US exchange.

The CBOT and Liffe originally announced their alliance last year and trading of US T-bond futures in London and German bund futures in Chicago had been expected to start at the end of June.

However, technicians have found it more difficult than expected to reconcile the ways trades are "booked" (or registered) in the two markets.

Mr Arbor said yesterday that he was hopeful the link could begin in the autumn. "My hope and expectation is that it will be sometime in the fall. The relationship [between the two exchanges] is very good and harmonious," he said.

Ms Yvonne Downs, senior vice-president at the CBOT, and a member of the joint team exploring technical implementation, said work on trade registration had led to the need to modify 3,000 separate computer programmes.

In the US, trades are classified as either segregated or house trades. In contrast, there are four categories in the UK: client segregated, client non-segregated, house, and default trades.

To complicate matters further, trades have to be transferred in the UK evening during a very short period of time, creating the need for additional programming.

In the first stage of the link, Liffe will trade the CBOT Treasury bond contract during the London morning, while the CBOT will trade the Liffe German bond contract after the close of trading in London.

Subsequently, Liffe will trade CBOT's five-year and 10-year bond contracts, while CBOT will trade Italian and UK bond futures.

Romania makes successful debut with $225m offering

By Conner Middelmann

Romania made its successful debut in the international bond market yesterday with a $225m issue of three-year bonds – larger than the $150m offering it had planned initially.

INTERNATIONAL BONDS

The Merrill Lynch-led issue, for the National Bank of Romania, was sold to qualified institutional investors in the US under the SEC's Rule 144a, as well as investors in Europe and Asia.

The deal got a warm reception, traders said, largely due to the 9¾ per cent coupon and generous 305 basis point yield spread over US Treasuries.

"Given Romania's improving credit story and the general downward trend in emerging-market spreads, this deal should perform well," said one dealer.

However, another said it might take some time before the issue was securely placed. "A lot of investors still have to establish credit lines for this name, which could take a bit of time," he said.

The Republic of Argentina passed another milestone by becoming the first emerging market borrower to tap the Dutch guilder market.

The issue, which is to be priced today, is expected to total between Fl 200m and Fl 250m and to be priced at a spread of between 305 and 330 basis points over Dutch state loans. That looks generous compared with Argentina's outstanding three-year D-Mark bonds, which currently trade at a spread of around 250 basis points over bunds.

Lead manager ABN Amro reported strong demand from Dutch institutions as well as a healthy appetite from investors in Germany, Belgium, Luxembourg and the UK.

ABN Amro has also managed to bag the hotly-contested mandate to bring Kazakhstan to the eurobond market later this year – probably helped by its being the only western bank to have established a branch in Alma-Ata.

It will also act as a ratings adviser to Kazakhstan, which is thought to be looking to raise $100m of bonds in the last quarter of the year.

Elsewhere, the Export-Import Bank of Korea issued $200m of five-year bonds yesterday, placed mostly with investors in Europe, rather than its traditional Asian investor base, said a syndicate manager at Nomura, joint lead with SBC Warburg.

The bonds were priced to yield 47 basis points over Treasuries.

The World Bank, in an effort to meet the remaining funding needs of its outgoing fiscal year, launched two short-dated dollar issues.

It issued $200m of 5.25 per cent one-year notes via Nomura, targeted at Japanese retail investors, and $200m of 6.25 per cent bonds, priced at 5 basis points below Treasuries, via SGST Securities.

In the D-Mark sector, the European Investment Bank launched DM500m of 10-year bonds via Commerzbank, while DSL Finance issued DM500m of seven-year paper via SBC Warburg.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
NationsBank Corp(a)‡	500	(a)	99.80R	Jun 2002	0.20R	-	Merrill Lynch International
National Bank of Romania	225	9.75	99.828R	Jun 1999	1.00R	+305(6⅛%-99)	Merrill Lynch International
Export-Import Bank of Korea	200	7.25	99.437R	Jun 2001	0.275R	+47(6½%-01)	Nomura Intl/SBC Warburg
World Bank(s)	200	6.25	99.759R	Dec 1998	0.15R	-5(6%-98)	SGST Securities
World Bank☆	200	5.25	100.50	Jun 1997	0.10	-	Nomura International
McDonald's Corp(s)	150	6.625	99.805R	Dec 1999	0.20R	+3½(6⅛%-99)	Deutsche Morgan Grenfell
Union Petrochemical(b)§	70	1.50	100.00	Jun 2003	2.50	-	Jardine Fleming
D-MARKS							
European Investment Bank‡	500	(c)	99.70	Jul 2006	0.20	-	Commerzbank
DSL Finance(s)	500	6.125	99.52R	Oct 2003	0.30R	+12½(6%-03)	SBC Warburg
Expo 2000 Hannover(s)	200	5.00	100.70	Nov 2000	1.75	-	Norddeutsche Landesbank
GUILDERS							
Aegon(d)	250	7.625	99.25R	undated	0.75R	+108(d1)	ABN Amro Hoare Govett
Republic of Argentina	(e)	(e1)	(e1)R	Jul 1999	0.625R	(e1)(7½%-99)	ABN Amro Hoare Govett
ITALIAN LIRE							
JP Morgan & Co(f)	250bn	(f1)	99.90R	Jul 2001	0.11R	-	BCI/BNL/JP Morgan Secs

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ☆Unlisted. §Convertible. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +15bp. b) Conversion price: NT$32.256. FX: NT$27.743/US$. Refixing June 1999. 90% floor. Puttable on 19/6/01 at 141.15%. Callable from 19/6/99 with 145% hurdle. Greenshoe: $15m. c) Rex 10-yr index x0.82. d) Callable on 10/7/08 & every 10 yrs at par. d1) Over interpolated 12-yr. e) Fl 200m-250m. e1) Priced today at 305-320bp over. f) Callable on 16/7/98 at par. f1) 8.95% to 16/7/98, then 9.25%. s) Short 1st coupon

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.3080	-0.200	9.03	8.97	8.92
Austria		6.125	02/06	97.4900	+0.450	6.48	6.44	6.53
Belgium		7.000	05/06	101.9500	-0.030	6.72	6.72	6.77
Canada *		7.000	12/06	93.9800	-0.370	7.85	7.65	7.87
Denmark		8.000	03/06	103.6200	+0.180	7.46	7.45	7.37
France	BTAN	5.750	03/01	100.6250	-0.130	5.59	5.56	5.62
	OAT	7.250	04/06	105.2100	-0.050	6.51	6.52	6.51
Germany Bund		6.250	04/06	97.8800	-0.050	6.55	6.50	6.57
Ireland		8.000	08/06	101.4500	+0.030	7.78	7.75	7.81
Italy		9.500	02/06	100.6800	+0.340	9.39†	9.38	9.64
Japan	No 140	6.600	06/01	119.4432	-0.150	2.27	2.17	2.52
	No 182	3.000	09/05	98.8543	+0.530	3.16	3.12	3.42
Netherlands		6.000	01/06	96.9300	-0.250	6.43	6.39	6.46
Portugal		11.875	02/05	117.6900	+0.540	8.85	9.02	9.05
Spain		8.800	04/06	98.1400	+0.220	9.07	9.22	9.28
Sweden		6.000	02/05	85.4986	+0.810	8.42	8.40	8.52
UK Gilts		8.000	12/00	102-17	-8/32	7.32	7.40	7.57
		7.500	12/06	96-07	-2/32	8.04	8.05	8.24
		9.000	10/08	106-17	-2/32	8.15	8.15	8.34
US Treasury *		6.875	05/06	99-07	-4/32	6.98	6.86	6.83
		6.000	02/25	86-03	-11/32	7.13	7.01	7.05
ECU (French Govt)		7.500	04/05	103.2500	-0.090	6.99	6.98	6.95

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.38
Prime rate	8¼	Two month	-	Three year	6.55
Broker loan rate	7	Three month	5.26	Five year	6.76
Fed funds	5¼	Six month	5.53	10-year	6.98
Fed funds at intervention	-	One year	5.83	30-year	7.14

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	123.14	123.18	+0.02	123.24	123.06	123,978	108,184
Sep	121.56	121.64	+0.06	121.68	121.52	60,672	75,318
Dec	120.30	120.38	+0.02	120.40	120.30	1,665	12,962

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
120	-	-	-	-	-	-
121	0.86	-	-	-	-	-
122	0.25	0.56	0.86	-	-	-
123	0.04	0.20	0.47	-	-	-
124	0.10	0.06	0.20	-	-	-

Est. vol. total, Calls 21,498 Puts 9,531. Previous day's open int., Calls 98,056 Puts 113,633.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.29	95.36	-0.05	95.42	95.18	107894	187508
Dec	94.45	94.46	-0.06	94.45	94.37	180	1217

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9500	0.53	0.88	1.09	1.07	0.17	0.52	0.73	1.61
9550	0.23	0.60	0.81	0.85	0.37	0.74	0.95	1.88
9600	0.08	0.39	0.58	0.67	0.72	1.03	1.22	2.21

Est. vol. total, Calls 7835 Puts 11502. Previous day's open int., Calls 130180 Puts 161172

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	115.34	115.46	+0.01	115.65	115.29	28867	53437
Dec		114.76	-0.04			0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	CALLS Dec	PUTS Sep	PUTS Dec
11500	1.73	2.19	1.27	2.43
11550	1.47	1.98	1.51	2.70
11600	1.24	1.75	1.78	2.99

Est. vol. total, Calls 2068 Puts 4183. Previous day's open int., Calls 49339 Puts 38001

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.26	99.50	+0.22	99.70	99.25	70,863	44,865
Sep	98.86	98.89	+0.24	99.09	98.65	17,913	23,586

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-10	106-13	-0-02	106-13	106-07	2748	17696
Sep	105-07	105-09	-0-02	105-10	105-01	35592	114944

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
105	0-39	1-09	1-30	1-50	0-21	0-55	1-12	2-32
106	0-10	0-42	0-63	1-25	0-66	1-24	1-46	3-07
107	0-02	0-22	0-40	1-03	1-48	2-04	2-22	3-49

Est. vol. total, Calls 1427 Puts 1728. Previous day's open int., Calls 19314 Puts 23343

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	90.86	90.82	-0.06	90.90	90.80	1,151	4,336
Sep	90.46	90.42	-0.04	90.50	90.40	766	4,675

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	106-26	106-30	+0-04	107-01	106-14	25,981	87,747
Sep	106-12	106-13	+0-04	106-16	105-28	416,486	326,952
Dec	105-28	105-19	-0-06	105-30	105-13	1,642	9,733

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	119.00			119.17	118.90	2303	0
Dec	118.05			118.06	117.98	171	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jun 12	Day's change %	Tue Jun 11	Accrued interest	xd adj. ytd		Low coupon yield Jun 12	Jun 11	Yr. ago	Medium coupon yield Jun 12	Jun 11	Yr. ago	High coupon yield Jun 12	Jun 11	Yr. ago
1 Up to 5 years (22)	121.75	-0.06	121.82	2.43	4.26	5 yrs	7.48	7.41	7.82	7.49	7.45	7.83	7.59	7.55	7.89
2 5-15 years (19)	144.78	-0.07	144.86	1.81	5.84	15 yrs	8.25	8.24	8.08	8.28	8.25	8.11	8.34	8.34	8.22
3 Over 15 years (9)	159.14	-0.10	159.30	2.88	5.43	20 yrs	8.34	8.33	8.08	8.34	8.32	8.11	8.41	8.39	8.20
4 Irredeemables (6)	179.61	-0.35	180.25	1.70	8.12	Irred.†	8.42	8.38	8.16						
5 All stocks (56)	140.67	-0.07	140.77	2.24	5.13										

Index-linked							Inflation 5% Jun 12	Jun 11	Yr. ago	Inflation 10% Jun 12	Jun 11	Yr. ago
6 Up to 5 years (1)	197.20	0.02	197.16	1.15	4.43	Up to 5 yrs	2.81	2.81	3.30	1.42	1.42	1.63
7 Over 5 years (11)	185.58	-0.13	185.82	1.48	1.81	Over 5 yrs	3.87	3.85	3.64	3.67	3.66	3.45
8 All stocks (12)	185.72	-0.12	185.95	1.48	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 12	Jun 11	Jun 10	Jun 7	Jun 6	Yr ago	High*	Low*
Govt. Secs. (UK)	92.27	92.44	92.41	92.29	92.83	93.58	96.34	91.59
Fixed Interest	111.58	111.64	111.91	112.01	112.71	112.96	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 11	Jun 10	Jun 7	Jun 6	Jun 5
Gilt Edged bargains	85.2	74.4	92.5	101.3	72.1
5-day average	85.1	83.9	84.4	82.1	81.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on June 12

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	95½	95¾	-⅛	7.35
ABN Amro Bank 7¼ 05	1000	98¼	98½	-⅛	7.55
African Dev Bk 7⅞ 23	500	93½	94	-½	7.96
Alberta Province 7⅞ 98	1000	101⅞	102⅛		6.72
Asian Dev Bank 6¼ 05	750	93⅛	93¼	-⅛	7.41
Austria 8½ 00	400	104⅞	105⅛		6.91
Baden-Wuert L-Fin 8⅛ 00	1000	103⅝	103⅞		5.94
Bank Ned Gemeenten 7 99	1000	101	101¼	+⅛	6.63
Swedén 8 97	2500	105⅛	105½	-⅛	3.94
United Kingdom 7⅛ 97	5500	104⅛	104½		3.78
Volkswagen Intl Fin 7 03	1000	102½	102⅝		6.54
World Bank 0 15	2000	29⅞	30⅛		6.38
World Bank 5⅞ 08	3000	99	99⅛	-⅛	6.04
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	34	34¼	-⅛	5.64
Austria 4½ 00	1000	103⅝	103⅞	+⅛	3.43
Abbey Natl Treasury 8 03 £	1000	89⅞	89⅝	+⅛	8.11
British Land 8⅞ 23 £	150	89⅛	89⅞	+⅛	10.27
Denmark 6⅛ 98 £	800	100	100⅛		6.73
Depfa Finance 7¼ 03 £	500	94¼	94½		8.18
EIB 8 03 £	1000	100⅛	100⅝	+⅛	7.89
Glaxo Wellcome 8¾ 05 £	500	101	101¼	-⅛	8.58
Hanson 10⅛ 97 £	500	104½	104⅞		6.73
HSBC Holdings 11.69 02 £	153	115	115⅜		8.44
Italy 10½ 14 £	400	111⅞	112¼		9.12
[illegible]					

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
Treas 2pc 1996	0.91	5.76	218⅔	-	218⅔	210¾
Conversion 10pc 1996	9.83	5.71	101⅞	-	104⅛	101⅞
Treas 13¼pc 1997‡‡	12.69	5.72	104⅜	-	109⅛	104⅜
Exch 10½pc 1997	10.18	5.77	103⅛	-	105⅞	103⅛
Treas Cnv 7pc 1997‡‡	6.92	5.97	101⅛	-	101⅞	99⅞
Treas 8¾pc 1997‡‡	8.50	6.06	103	-	104⅛	101⅞
[illegible]						
Treas 7½pc 2006‡‡	7.80	8.03	96⅛	-⅛	101⅞	94⅞
Treas 7¾pc 2006‡‡	7.94	8.07	97⅝	-⅛	103¼	94⅛
Treas 8pc 2002-6‡‡	8.04	8.08	99⅛	-⅛	104⅞	95⅛
Treas 11¾pc 2003-7	9.83	7.97	119⅛	-⅛	125⅛	117⅛
Treas 8½pc 2007 ‡‡	8.28	8.12	102⅞	-⅛	108⅞	98⅝
Treas 13½pc 2004-8	10.24	7.93	131⅞	+⅛	138⅞	129⅝
[illegible]						

Notes		Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	1.43	2.81	113⅛	-	113⅛	110⅛
2½pc '01	(78.3)	3.18	3.69	178⅛	-⅛	180⅛	173⅞
2½pc '03	(78.8)	3.38	3.76	174⅞	-⅛	179⅛	169⅞
4⅛pc '04‡‡	(135.6)	3.44	3.79	114⅛	-⅛	116⅞	112⅞
2pc '06	(69.5)	3.53	3.80	181⅞	-⅛	185⅞	176⅞
2½pc '09	(78.8)	3.62	3.84	163⅛	-⅛	167⅞	159⅞
[illegible]							

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Scandinavian currencies gain in quiet markets

By Graham Bowley

The Swedish krona enjoyed a strong day on the foreign exchanges yesterday, buoyed by further speculation that the currency may soon join the European exchange rate mechanism.

The Finnish markka also made good ground against the D-Mark.

The Swiss franc rose on the back of growing expectations that interest rates might be raised soon.

The pound fell, in spite of figures showing another drop in UK unemployment, amid concerns about political involvement in last week's interest rate cut and rumours that the government might call an early general election.

The New Zealand dollar stabilised after coming under heavy selling pressure.

Elsewhere, currency markets were generally quiet with the dollar, yen and D-Mark moving in narrow trading ranges.

The dollar finished in London unchanged at DM1.5363. Against the yen it closed at Y109.4750, from Y109.4650.

Sterling's trade weighted index finished at 85.9, from 86.0. Against the D-Mark, the pound closed at DM2.3575, from DM2.3589, while against the dollar it finished at $1.5345, from $1.5355.

The Swedish krona finished at SKr4.370 from SKr4.375.

■ The Swedish krona's continued strength yesterday appeared to defy most analysts' view of where the currency should in fact be going.

Mr Paul Meggyesi, senior currency strategist at Deutsche Morgan Grenfell in London, said: "It is very difficult to justify this rise fundamentally. The country is experiencing poor growth and the central bank is cutting rates, yet people still buy the currency."

Some analysts said there was some suspicion in the market that one investor had been driving the krona higher in order to benefit from positions in the options market.

Mr Kit Juckes, currency analyst at NatWest Markets in London, said Swedish GDP figures today should show that output is falling.

"That is a sign that the krona's strength – which is due to capital inflows – is penalising the economy," he said.

He said the krona was overvalued against the D-Mark but that expectations of further rate cuts meant investors continued to buy Swedish bonds, which in turn supported the currency.

■ The pound continued to fall, amid some talk that a UK clearing bank had told its clients that the Conservative government was advising its members not to be on holiday in September, prompting speculation that an election might be called soon.

But the real reason for sterling weakness still appeared to be discontent over last week's interest rate cut which some analysts suspect may have been politically motivated.

Mr Juckes said: "The game in the UK financial markets at the moment is very much whether the rate cut was justified or not. We will need a series of good inflation numbers to provide justification for that move."

Figures yesterday showed that wage inflation in the UK labour market remained subdued in April. But attention today will be on retail price inflation figures for May which are expected to show headline inflation remaining around 2.4 per cent.

Mr Chris Turner, currency analyst at BZW in London, said the argument that interest rates may now be too loose could be negative for sterling in the longer term. But he said the pound would retain some strength until the effect of loose policy showed up in the deterioration in inflation and trade figures.

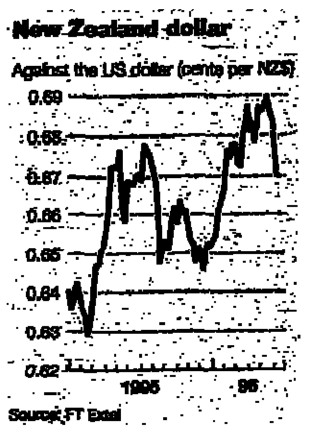
He said real interest rates in the UK were still above US real rates, which meant the pound would be supported in the short-term.

■ Mr Juckes said the 57 basis points spread enjoyed on 10-year US government bonds over German bonds was "the single most important driving force behind the dollar and is providing it with considerable support."

He said that "while that spread is there, the dollar will move up rather than down."

But Mr Keith Edmonds, at IBJ, said that "the perception that the turn in German interest rates is close" will mean that currencies, such as the dollar and the French franc, which had gained against the D-Mark in recent weeks, will have to give up most of their gains.

New Zealand dollar



Source: FT Extel

■ Pound in New York

Jun 12	Latest	Prev. close
£ spot	1.5345	1.5350
1 mth	1.5341	1.5345
3 mth	1.5335	1.5340
1 yr	1.5334	1.5360

■ OTHER CURRENCIES

Jun 12	£	$
Czech Rp	42.8063 - 42.8495	27.9050 - 27.9150
Hungary	229.732 - 229.958	149.760 - 149.810
Iran	4605.00 - 4602.00	3000.00 - 3000.00
Kuwait	0.4600 - 0.4607	0.2999 - 0.3001
Poland	4.1755 - 4.1829	2.7220 - 2.7250
Russia	7772.78 - 7782.45	5067.00 - 5070.00
U.A.E.	5.6335 - 5.6377	3.6724 - 3.6726

POUND SPOT FORWARD AGAINST THE POUND

Jun 12		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5906	-0.0106	815 - 996	16.6348	16.5713	16.5593	2.3	16.4843	2.6	-	-	104.6
Belgium	(BFr)	48.5010	-0.0208	775 - 244	48.6170	48.4775	48.396	2.6	48.186	2.6	47.186	2.7	108.5
Denmark	(DKr)	9.0927	-0.0105	874 - 979	9.1235	9.0901	9.0784	1.9	9.0494	1.9	8.9275	1.8	107.2
Finland	(FM)	7.2000	-0.0097	926 - 073	7.2330	7.1926	7.1956	0.7	7.1875	0.7	-	-	83.6
France	(FFr)	7.9921	+0.0012	891 - 950	8.0081	7.9891	7.9792	1.9	7.9543	1.9	7.8417	1.9	108.6
Germany	(DM)	2.3575	-0.0014	562 - 587	2.3655	2.3562	2.3527	2.4	2.3417	2.7	2.2963	2.6	108.1
Greece	(Dr)	372.607	+0.548	409 - 805	374.957	371.282	-	-	-	-	-	-	67.4
Ireland	(I£)	0.9741	-0.0002	734 - 748	0.9782	0.9721	0.9736	0.6	0.9724	0.7	0.9679	0.6	98.2
Italy	(L)	2378.25	-0.47	670 - 979	2384.76	2376.70	2384.5	-3.3	2395.95	-3.0	2429.2	-2.1	78.6
Luxembourg	(LFr)	48.5010	-0.0208	775 - 244	48.6170	48.4775	48.396	2.6	48.186	2.6	47.186	2.7	108.5
Netherlands	(Fl)	2.6392	-0.0021	376 - 408	2.6518	2.6376	2.6327	3.0	2.6193	3.0	2.5627	2.9	106.6
Norway	(NKr)	10.0718	-0.0081	627 - 808	10.1011	10.0491	10.0633	1.0	10.0463	1.0	9.9626	1.1	98.5
Portugal	(Es)	243.111	-0.174	955 - 267	243.751	242.955	243.536	-2.1	244.441	-2.2	-	-	94.4
Spain	(Pta)	198.893	-0.061	730 - 936	199.362	198.736	199.093	-1.6	199.806	-1.6	201.003	-1.1	80.3
Sweden	(SKr)	10.3036	-0.0115	942 - 129	10.3878	10.2867	10.3039	0.0	10.304	0.0	10.3019	0.0	90.0
Switzerland	(SFr)	1.9411	-0.0036	397 - 425	1.9467	1.9387	1.9361	3.1	1.9253	3.3	1.8771	3.3	110.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.9
Ecu		1.2461	-0.0013	451 - 470	1.2496	1.2451	1.2448	1.3	1.2418	1.4	1.2286	1.4	-
SDR†		1.067500	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5324	-0.001	317 - 330	1.5384	1.5317	-	-	-	-	-	-	-
Brazil	(R$)	1.5369	+0.0014	352 - 385	1.5388	1.5342	-	-	-	-	-	-	-
Canada	(C$)	2.0973	+0.0018	962 - 983	2.1009	2.0962	2.0966	0.4	2.093	0.8	2.0849	0.6	84.5
Mexico	(New Peso)	11.6292	-0.102	216 - 368	11.6865	11.6218	-	-	-	-	-	-	-
USA	($)	1.5345	-0.001	340 - 350	1.5391	1.5340	1.534	0.4	1.5335	0.2	1.5325	0.1	97.6
Pacific/Middle East/Africa													
Australia	(A$)	1.9389	+0.0007	376 - 401	1.9440	1.9376	1.9415	-1.6	1.9465	-1.6	1.9718	-1.7	94.1
Hong Kong	(HK$)	11.8786	-0.008	747 - 843	11.9117	11.8747	11.8714	0.8	11.8596	0.7	11.84	0.3	-
India	(Rs)	53.4775	-0.0348	631 - 918	53.6939	53.1631	-	-	-	-	-	-	-
Israel	(Shk)	5.0198	-0.0105	110 - 221	5.0434	5.0110	-	-	-	-	-	-	-
Japan	(Y)	167.989	-0.095	886 - 093	168.500	167.810	167.264	5.2	165.774	5.3	159.369	5.1	134.1
Malaysia	(M$)	3.8240	-0.0117	220 - 260	3.8377	3.8220	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2778	-0.0025	758 - 795	2.2839	2.2756	2.2826	-2.8	2.2921	-2.5	2.3259	-2.1	106.4
Philippines	(Peso)	40.1809	-0.0262	141 - 477	40.2477	40.1141	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7552	-0.0037	531 - 572	5.7721	5.7531	-	-	-	-	-	-	-
Singapore	(S$)	2.1629	-0.0006	614 - 644	2.1684	2.1614	-	-	-	-	-	-	-
South Africa	(R)	6.6467	-0.0335	422 - 512	6.6892	6.6420	-	-	-	-	-	-	-
South Korea	(Won)	1219.82	+2.97	907 - 017	1222.97	1216.96	-	-	-	-	-	-	-
Taiwan	(T$)	42.5625	-0.0369	409 - 840	42.6900	42.5618	-	-	-	-	-	-	-
Thailand	(Bt)	38.9211	-0.0315	007 - 414	39.0360	38.9007	-	-	-	-	-	-	-

† Rates for Jun 11. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 12		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.8117	+0.0001	093 - 141	10.8250	10.7900	10.7922	2.2	10.7502	2.3	10.5867	2.3	104.6
Belgium	(BFr)	31.6070	+0.007	020 - 120	31.6400	31.5640	31.552	2.1	31.437	2.2	30.887	2.2	106.2
Denmark	(DKr)	5.9255	-0.003	240 - 270	5.9312	5.9210	5.916	1.5	5.901	1.7	5.832	1.6	106.4
Finland	(FM)	4.6921	-0.0032	888 - 953	4.7097	4.6852	4.6856	1.7	4.6736	1.6	4.6281	1.4	82.8
France	(FFr)	5.2083	+0.0042	060 - 085	5.2098	5.2020	5.2014	1.6	5.1871	1.6	5.1193	1.7	108.2
Germany	(DM)	1.5363	-	360 - 366	1.5390	1.5339	1.5338	2.0	1.528	2.1	1.4998	2.4	107.6
Greece	(Dr)	242.820	+0.515	770 - 870	243.770	241.800	244.495	-8.3	247.845	-8.3	261.82	-7.8	67.0
Ireland	(I£)	1.5754	+0.0006	747 - 760	1.5760	1.5747	1.5759	-0.4	1.5783	-0.4	1.5854	-0.4	-
Italy	(L)	1549.85	+0.7	935 - 035	1552.30	1548.00	1554.6	-3.7	1562.75	-3.3	1585.5	-2.3	76.0
Luxembourg	(LFr)	31.6070	+0.007	020 - 120	31.6400	31.5640	31.554	2.0	31.4475	2.0	30.967	2.0	106.2
Netherlands	(Fl)	1.7199	-0.0003	194 - 204	1.7262	1.7183	1.7166	2.3	1.7094	2.4	1.6777	2.5	106.2
Norway	(NKr)	6.5636	-0.0031	598 - 673	6.5700	6.5390	6.5606	0.5	6.5551	0.5	6.5186	0.7	97.7
Portugal	(Es)	158.430	-0.01	380 - 480	158.620	158.250	158.745	-2.4	159.335	-2.3	161.48	-1.9	94.4
Spain	(Pta)	129.575	+0.025	550 - 600	129.810	129.320	129.825	-2.3	130.255	-2.1	131.795	-1.7	80.0
Sweden	(SKr)	6.7146	-0.0081	107 - 185	6.7620	6.6901	6.7256	-2.0	6.7431	-1.7	6.7861	-1.0	89.5
Switzerland	(SFr)	1.2650	-0.0015	645 - 655	1.2660	1.2625	1.2614	3.4	1.254	3.5	1.2205	3.5	108.8
UK	(£)	1.5345	-0.001	340 - 350	1.5391	1.5340	1.534	0.4	1.5335	0.2	1.5334	0.1	85.8
Ecu		1.2315	+0.0005	310 - 320	1.2333	1.2301	1.2323	-0.7	1.2339	-0.8	1.2428	-0.9	-
SDR†		0.69490	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-	995 - 997	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0009	+0.0015	008 - 010	1.0010	0.9998	-	-	-	-	-	-	-
Canada	(C$)	1.3668	+0.0021	665 - 670	1.3670	1.3632	1.3686	0.1	1.3699	0.0	1.3697	-0.2	83.8
Mexico	(New Peso)	7.5785	-0.0615	760 - 810	7.5810	7.5760	7.74	-25.6	7.925	-18.3	8.6685	-27.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.4
Pacific/Middle East/Africa													
Australia	(A$)	1.2634	+0.0018	631 - 639	1.2639	1.2631	1.2654	-1.9	1.2698	-1.7	1.2876	-1.9	95.5
Hong Kong	(HK$)	7.7416	+0.0013	410 - 422	7.7422	7.7313	7.7423	-0.1	7.7441	-0.1	7.7771	-0.4	-
India	(Rs)	34.8500	-	500 - 500	35.0500	34.8500	35	-5.2	35.305	-5.2	36.775	-5.5	-
Israel	(Shk)	3.2692	-0.0047	668 - 717	3.2830	3.2668	-	-	-	-	-	-	-
Japan	(Y)	109.475	+0.01	450 - 500	109.620	109.170	109.03	4.9	108.13	4.9	104.39	4.6	134.6
Malaysia	(M$)	2.4920	-0.006	915 - 925	2.4978	2.4915	2.4950	-1.4	2.499	-1.1	2.5225	-1.2	-
New Zealand	(NZ$)	1.4841	-0.0007	836 - 850	1.4860	1.4835	1.4872	-2.5	1.493	-2.4	1.5176	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2000	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 508	3.7506	3.7504	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4085	+0.0005	080 - 090	1.4100	1.4060	1.408	3.0	1.4	2.7	1.3745	2.5	-
South Africa	(R)	4.3315	-0.019	300 - 330	4.3500	4.3200	4.379	-13.2	4.469	-12.7	4.8085	-11.0	-
South Korea	(Won)	794.800	+2.45	700 - 900	795.000	793.300	-	-	-	-	-	-	-
Taiwan	(T$)	27.7870	-0.006	320 - 420	27.7950	27.7200	27.742	-0.2	27.747	-0.1	-	-	-
Thailand	(Bt)	25.3640	-0.004	590 - 690	25.3670	25.3580	25.4827	-4.7	25.6895	-4.9	26.549	-4.7	-

† SDR rate per $ for Jun 11. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 11: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 12	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3⅜	3¼	3¼	3⅜	3⅞	7.00	2.50	-
week ago	3⅜	3¼	3¼	3⅜	3¾	7.00	2.50	-
France	3¾	3⅞	3⅞	4	4⅜	3.60	-	5.60
week ago	3⅞	3⅞	3⅞	4	4⅛	3.70	-	5.60
Germany	3¼	3⅜	3⅜	3⅜	3⅞	4.50	2.50	3.30
week ago	3⅜	3⅜	3⅜	3⅜	3¾	4.50	2.50	3.30
Ireland	6⅜	5⅝	5¾	5⅝	5½	-	-	6.25
week ago	5⅞	5⅝	5⅝	5⅝	5½	-	-	6.25
Italy	9⅜	9⅛	8¾	8⅞	8⅝	-	9.00	9.35
week ago	9¼	9⅛	8⅞	8⅝	8¼	-	9.00	9.35
Netherlands	2¾	2⅞	2⅞	2⅞	3¼	-	3.00	3.30
week ago	2⅞	2⅞	2¾	2⅞	3⅛	-	3.00	3.30
Switzerland	2½	2¾	2¾	2¾	2¾	5.00	1.50	-
week ago	2⅞	2¾	2⅞	2⅞	2⅝	5.00	1.50	-
US	5¼	5½	5⅜	5¾	6⅜	-	5.00	-
week ago	5¼	5½	5⅝	5⅞	6¼	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	¾	1	-	0.50	-
week ago	½	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅝	5⅝	5⅞	6⅜	-	-	-
week ago	-	5⅝	5⅝	5⅞	6⅛	-	-	-
US Dollar CDs	-	4.98	5.19	5.41	5.83	-	-	-
week ago	-	4.98	5.11	5.31	5.73	-	-	-
ECU Linked Ds	-	4⅞	4⅜	4⅜	4⅞	-	-	-
week ago	-	4⅜	4⅛	4⅜	4⅜	-	-	-
SDR Linked Ds	-	3⅝	3¾	3⅞	3⅞	-	-	-
week ago	-	3⅝	3⅝	3⅞	3¾	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 12	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3¼ - 3⅛	3⁷⁄₁₆ - 3⁵⁄₁₆	3⁷⁄₁₆ - 3⁵⁄₁₆	3⁷⁄₁₆ - 3⁵⁄₁₆	3½ - 3¼	3⁹⁄₁₆ - 3⁷⁄₁₆
Danish Krone	3⅞ - 3½	4 - 3⅞	3⅞ - 3¾	4 - 3⅞	4 - 3⅞	4⁵⁄₁₆ - 4³⁄₁₆
D-Mark	3⅜ - 3¼	3⅜ - 3¼	3⁷⁄₁₆ - 3⁵⁄₁₆	3⁷⁄₁₆ - 3⁵⁄₁₆	3⁷⁄₁₆ - 3⁵⁄₁₆	3⅞ - 3¾
Dutch Guilder	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	3¼ - 3⅛
French Franc	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	3⅞ - 3¾	4⅛ - 3⅞	4⅜ - 4⅛
Portuguese Esc.	7½ - 7⅜	7⁷⁄₁₆ - 7⁵⁄₁₆	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼
Spanish Peseta	7⁵⁄₁₆ - 7³⁄₁₆	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼	7⅜ - 7¼
Sterling	5¾ - 5⅝	5¾ - 5⅝	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾	6⅛ - 6
Swiss Franc	2⅜ - 2¼	2⅜ - 2¼	2⅝ - 2½	2⅝ - 2½	2⅝ - 2½	2⅞ - 2¾
Can. Dollar	4⅝ - 4½	4¾ - 4⅝	4¾ - 4⅝	4⅞ - 4¾	5 - 4⅞	5⁵⁄₁₆ - 5³⁄₁₆
US Dollar	5⅜ - 5¼	5⅜ - 5¼	5⁷⁄₁₆ - 5¼	5⅝ - 5½	5¾ - 5⅝	6⅛ - 6
Italian Lira	9⅜ - 9¼	9⅜ - 9⅛	9⅛ - 9	8⅞ - 8¾	8⅝ - 8½	8⅝ - 8½
Yen	½ - ⅜	⁷⁄₁₆ - ⁵⁄₁₆	⁷⁄₁₆ - ⁵⁄₁₆	½ - ⅜	⅝ - ½	1 - ⅞
Asian $Sing	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.04	96.03	-0.01	96.04	96.02	6,967	43,500
Sep	95.89	95.88	-0.02	95.90	95.87	11,653	50,817
Dec	95.75	95.75	-0.01	95.77	95.74	8,225	30,681

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.64	96.64	-	96.65	96.63	9675	158598
Sep	96.65	96.66	-	96.67	96.64	25658	221557
Dec	96.47	96.46	-0.02	96.47	96.44	22950	199381
Mar	96.16	96.15	-0.03	96.17	96.13	20530	173877

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.26	91.28	-0.01	91.30	91.24	5513	35597
Sep	91.89	91.95	+0.06	91.97	91.87	16750	48025
Dec	92.16	92.23	+0.06	92.25	92.16	5368	29220
Mar	92.23	92.28	+0.04	92.32	92.23	2377	12868

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.47	97.40	-0.07	97.47	97.31	5390	18867
Sep	97.40	97.33	-0.08	97.42	97.20	19701	39172
Dec	97.19	97.14	-0.07	97.21	97.02	4931	15216
Mar	96.87	96.84	-0.06	96.89	96.72	1458	6904

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.41	99.41	-	99.41	99.41	50	na
Sep	99.15	99.16	-	99.16	99.15	200	na
Dec	98.82	98.82	-0.03	98.82	98.82	517	na

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.58	95.57	-0.02	95.58	95.57	959	7946
Sep	95.60	95.58	-0.03	95.61	95.57	683	5641
Dec	95.47	95.47	-0.03	95.47	95.47	1	3758
Mar	95.25	95.25	-0.03	95.28	95.25	52	2576

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 12		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.75	16.48	4.860	2.008	4903	5.441	20.76	501.2	409.9	21.24	4.002	2.062	4.324	3.165	346.2	2.569
Denmark	(DKr)	53.34	10	8.789	2.592	1.071	2615	2.902	11.07	267.3	218.6	11.33	2.135	1.100	2.306	1.688	184.6	1.370
France	(FFr)	60.69	11.38	10	2.949	1.219	2975	3.302	12.60	304.2	248.7	12.89	2.429	1.251	2.624	1.921	210.1	1.559
Germany	(DM)	20.58	3.858	3.391	1	0.413	1009	1.120	4.272	103.1	84.34	4.370	0.824	0.424	0.890	0.651	71.23	0.529
Ireland	(I£)	49.79	9.336	8.205	2.420	1	2441	2.709	10.34	249.6	204.1	10.57	1.993	1.027	2.153	1.576	172.4	1.279
Italy	(L)	2.040	0.382	0.336	0.099	0.041	100.	0.111	0.423	10.22	8.360	0.433	0.082	0.042	0.088	0.065	7.061	0.052
Netherlands	(Fl)	18.38	3.446	3.028	0.893	0.369	901.1	1	3.816	92.12	75.33	3.903	0.736	0.379	0.795	0.582	63.62	0.472
Norway	(NKr)	48.16	9.030	7.936	2.341	0.967	2361	2.621	10	241.4	197.4	10.23	1.928	0.993	2.082	1.524	166.7	1.237
Portugal	(Es)	19.95	3.740	3.288	0.970	0.401	978.2	1.086	4.142	100.	81.78	4.237	0.798	0.411	0.863	0.631	69.07	0.513
Spain	(Pta)	24.40	4.574	4.020	1.186	0.490	1196	1.327	5.065	122.3	100.	5.181	0.976	0.503	1.055	0.772	84.46	0.627
Sweden	(SKr)	47.09	8.826	7.759	2.288	0.946	2309	2.562	9.777	236.0	193.0	10	1.884	0.971	2.036	1.490	163.0	1.210
Switzerland	(SFr)	24.99	4.685	4.117	1.214	0.502	1225	1.360	5.188	125.2	102.4	5.307	1	0.515	1.080	0.791	86.50	0.642
UK	(£)	48.50	9.093	7.992	2.357	0.974	2378	2.639	10.07	243.1	198.8	10.30	1.941	1	2.097	1.535	167.9	1.246
Canada	(C$)	23.13	4.336	3.811	1.124	0.464	1134	1.258	4.802	115.9	94.80	4.912	0.926	0.477	1	0.732	80.07	0.594
US	($)	31.60	5.924	5.207	1.536	0.635	1549	1.719	6.560	158.4	129.5	6.710	1.264	0.651	1.366	1	109.4	0.812
Japan	(Y)	28.89	5.416	4.760	1.404	0.580	1416	1.572	5.998	144.8	118.4	6.135	1.156	0.596	1.249	0.914	100.	0.742
Ecu		38.92	7.298	6.414	1.892	0.782	1909	2.118	8.082	195.1	159.6	8.266	1.558	0.803	1.683	1.232	134.8	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6517	0.6515	-0.0001	0.6520	0.6511	8,447	48,391
Sep	0.6546	0.6550	-0.0001	0.6556	0.6545	15,214	35,121
Dec	0.6588	0.6594	+0.0001	0.6589	0.6588	54	1,846

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9150	0.9149	+0.0013	0.9155	0.9148	17,798	42,178
Sep	0.9262	0.9267	+0.0015	0.9272	0.9262	29,865	52,986
Dec	0.9385	0.9388	+0.0016	0.9388	0.9395	154	3,484

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7915	0.7919	+0.0013	0.7925	0.7902	5,651	23,635
Sep	0.7968	0.7973	+0.0009	0.7982	0.7961	11,495	29,070
Dec	0.8029	0.8030	+0.0001	0.8029	0.8029	17	949

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5364	1.5382	+0.0038	1.5384	1.5362	5,868	46,736
Sep	1.5344	1.5378	+0.0042	1.5378	1.5354	11,045	30,891
Dec	1.5380	1.5378	+0.0028	1.5380	1.5380	8	82

UK INTEREST RATES

LONDON MONEY RATES

Jun 12	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5⅞ - 2½	5⅞ - 5⁹⁄₁₆	5⅞ - 5¾	5⅞ - 5¾	6 - 5⅞	6¼ - 6⅛
Sterling CDs	-	-	5⅞ - 5¾	5⅞ - 5¾	5⅞ - 5¾	6⁵⁄₁₆ - 6
Treasury Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅝	-	-
Bank Bills	-	-	5⅝ - 5⅝	5⅝ - 5⅝	5⅝ - 5⅝	-
Local authority deps.	5⅞ - 5⅝	5⅞ - 5⁹⁄₁₆	5⅞ - 5⅝	5⅞ - 5¾	6 - 5⅞	6⅜ - 6¼
Discount Market deps	5¼ - 4½	5¾ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount on Jun 5, 5.6301pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 23, 1996, Schemes II & III 7.36pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.10	94.10	-0.01	94.11	94.09	5880	58264
Sep	94.15	94.16	-0.01	94.17	94.13	11169	77303
Dec	93.95	93.96	-0.01	93.98	93.92	19573	80391
Mar	93.59	93.59	-0.01	93.60	93.54	9085	54871
Jun	93.16	93.16	-0.02	93.17	93.10	6888	38918

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9400	0.10	0.21	0.21	0	0.05	0.25
9425	0	0.07	0.11	0.15	0.16	0.40
9450	0	0.02	0.05	0.40	0.36	0.59

Est. vol. total, Calls 1825 Puts 2408. Previous day's open int., Calls 171982 Puts 133402

EMS EUROPEAN CURRENCY UNIT RATES

Jun 12	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Spain	162.493	161.460	-0.062	-0.62	2.01	4
Netherlands	2.15214	2.14347	+0.00093	-0.40	1.78	3
Ireland	0.792214	0.789949	-0.000587	-0.29	1.66	2
Belgium	39.3960	39.3794	+0.0231	-0.04	1.41	0
Germany	1.91007	1.91421	+0.00096	0.22	1.15	-2
Austria	13.4383	13.4716	+0.0072	0.25	1.12	-2
Portugal	195.792	197.389	+0.04	0.82	0.56	-5
France	6.40608	6.48910	+0.00206	1.30	0.07	-11
Denmark	7.28580	7.38559	+0.00028	1.37	0.00	-9
NON ERM MEMBERS						
Greece	292.867	302.838	+0.613	3.34	-1.90	-
Italy	2106.15	1931.13	-4.63	-8.31	10.56	-
UK	0.786652	0.810820	+0	3.19	-1.77	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.500	3.42	3.50	3.72	-	0.15	0.32
1.510	2.51	2.63	2.95	-	0.28	0.54
1.520	1.49	1.90	2.30	-	0.46	0.85
1.530	0.63	1.26	1.71	0.10	0.75	1.24
1.540	0.11	0.76	1.22	0.57	1.25	1.75

Previous day's vol., Calls 3,128 Puts 4,295. Prev. day's open int., Calls 199,456 Puts 192,177

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.42	94.42	+0.01	94.42	94.40	44,900	323,356
Sep	94.08	94.10	+0.02	94.11	94.07	95,598	386,708
Dec	93.70	93.71	+0.02	93.72	93.67	127,183	425,493

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.88	94.88	-	94.88	94.87	978	4,943
Sep	94.58	94.59	-	94.60	94.56	702	5,641
Dec	94.27	94.27	-	94.27	94.25	70	1,427

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	Jul	Aug	Sep	PUTS Jun	Jul	Aug	Sep
9650	0.15	0.19	0.20	0.21	0.01	0.03	0.04	0.05
9675	0.01	0.03	0.05	0.06	0.12	0.12	0.14	0.15
9700	0	0	0.01	0.02	0.36	0.34	0.35	0.36

Est. vol. total, Calls 9477 Puts 10803. Previous day's open int., Calls 384128 Puts 394845

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9750	0.02	0.09	0.10	0.12	0.26	0.46
9775	0.01	0.03	0.04	0.36	0.45	0.65

Est. vol. total, Calls 114 Puts 100. Previous day's open int., Calls 11049 Puts 7021

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
9125	0.05	0.80	1.10	0.04	0.10	0.12
9150	0.01	0.59	0.89	0.25	0.14	0.16
9175	0	0.41	0.71	0.49	0.21	0.23

Est. vol. total, Calls 4251 Puts 325. Previous day's open int., Calls 51758 Puts 28796

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	6.00
Allied Trust Bank	5.75	Exeter Bank Limited	7.00	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows	5.75
Bank of Baroda	5.75	Girobank	6.00	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	6.00
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	6.00	●Hill Samuel	6.00	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	6.00	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	6.00		
Credit Lyonnais	5.75	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.00	NatWestminster	6.00		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association
* In administration

LEGAL NOTICES

GRAPHIC OUTPUT LIMITED

PREMIER PARTITIONING LIMITED

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Acatos & Hutch		281	+2	284	205	128.8	4.1	22.7
Albert Fisher		47½xd	—	56	43½	338.5	9.9	11.8
Anglo-East		135xd	-1	*140	103	58.7	2.5	7.8
Assoc Brit Foods		384	—	*429	329½	3,456	2.9	13.7
Avonmore £		170	—	170	133	127.1	3.1	10.8

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Saracen Funds Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

LGT Asset Management Ltd - Contd.

IRELAND (REGULATED)(**)

Egerton Capital European Fund Plc

ISLE OF MAN (SIB RECOGNISED)

Sun Life Management (IoM) Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Lombard Odier (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Saracen Investment SICAV

LUXEMBOURG (REGULATED)(**)

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

K Yield based on prospectus or other official estimates for 1996

s Dividend yield excludes a special payment.

L Estimated annualised yield, p/e based on latest annual earnings.

t Indicated dividend yield, p/e ratio based on latest annual earnings.

M Yield based on prospectus or other official estimates for 1995-96.

u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings

N Dividend is paid in whole or part as a

z Dividend yield includes a special payment

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

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	Selling Price	Buying Price	+ or -	Yield Gross
Credis Investment Funds - Contd.				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Murray Universal, Sicav				
American Port May 29	[illegible]	[illegible]		
NICAM Asia Pacific Umbrella Fund				
Korea	88.71			
Nikko Bank (Luxembourg) S.A.				
Nikko Capital Management				
	Y100.4016			
Nomura Asian Infrastructure Fd SICAV				
NAV	$21.21		-0.10	
Pacific Basin Growth Fund				
Pan-Holding SA				
CMI Insurance Co Ltd				
Royal Skandia Life Assurance Ltd				
Chancellor Funds Limited				
Chesapeake Capital Corporation				
Chescor Indian Investment Company Ltd				
The China Fund				
The China Invest & Development Fd Ltd				
Red Fig Prd NAV May 31	$10.57			
Citibank Global Asset Mgmt (Asia) Ltd				
Nippon Fd	$95.79			
Citizens Investment Trust Mgt Co Ltd				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lloyds Bank Fund Managers (Guernsey) Ltd				
NAV Fully Paid May 31	$11.23			
Wells Fargo U.S. IT Fund				
Wells Fargo A Shs	$15.62			
Wells Fargo B Shs	$14.98			
Worldwide Limited				
NAV May 31	$90.28			
Xiphias International Investment Fd Ltd				
Xiphias Global Growth	$10.32			
Xiphias Int ECU Fund	Ecu11.5116			
Zanett Lombardier Ltd				
NAV Jun 1	$165.07			
Zuleuf Investment Management AG				
Zuleuf Europa Ltd NAV Jun 7	DM106.75			
Zweig-DiMenna International Limited				
NAV May 31	$15202			

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.

(**) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(✠) - 0001 to 1100 hours
(●) - 1101 to 1400 hours
(▲) - 1401 to 1700 hours
(♦) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
h - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
99 - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies
⊕ - Yield column shows annualised rates of NAV increase.

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LONDON STOCK EXCHANGE

MARKET REPORT

More bid hints and economic news lift stocks

By Steve Thompson, UK Stock Market Editor

There was widespread relief that the session's daily dose of economic news, from the US and the UK, gave a boost to both stock markets. London settled at the day's best, having gained in confidence as Wall Street opened in good heart.

Observers were by no means totally convinced of the UK equity market's underlying confidence, pointing to the persistent unease in the gilts market. The 20-year gilt gradually picked up from an initially depressed level but still closed marginally easier on the day.

Dealers said the market was eager for details of the chancellor of the exchequer's annual speech at the Mansion House last night.

Posting its third straight gain, the FT-SE 100 index closed a net 13.5 higher at 3,769.2. There was again much less enthusiasm for the second line stocks, where the FT-SE Mid 250 index could manage only a 5.1 improvement to 4,467.4.

Market optimists were quick to pounce on the resurgence of takeover speculation in various sectors, principally the pharmaceuticals, where the leaders were all aggressively bought, partly on bid talk but also because of fundamental reratings by top analysts.

Pearson, the media group, was another FT-SE 100 stock to make rapid progress in the wake of revived hints that a straight takeover or break-up bid could be in the offing.

The bid buzz was tempered somewhat, traders said, by the ever present worries that a large-scale rights issue was liable to hit the market at any time.

Economic details on unemployment, average earnings and unit wage costs in the UK were all seen as benign and as strengthening the chancellor's position after his move to reduce UK interest rates last week. Mr Clarke came in for widespread criticism, with many observers adopting the view that his motives were politically inspired.

The US inflation news was welcomed on Wall Street where US Treasury bonds managed minor gains, after worrying the market earlier this week. The Dow Jones Industrial Average had no problems with the inflation number, making good progress at the outset and posting a 25-point gain shortly after London closed for the day.

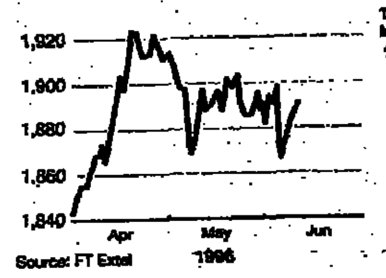
Turnover in the equity market was again disappointing, reaching 722.3m shares at the 6pm reading, with non-FT-SE 100 stocks accounting for 55 per cent of overall business.

Customer business on Tuesday at £1.38bn was slightly higher than Monday's and greeted with dismay by dealers.

The market's guesses as to the changes in the FT-SE 100 index, effective from Monday, June 24, were broadly correct. United News & Media, Orange and Next were elevated to premier status, while Foreign & Colonial, Greenalls Group and Rexam were relegated to the FT-SE Mid 250.

Entries to the Mid 250 index are Railtrack, Millenium, Copthorne Hotels Blenheim Group, and Chiroscience Group. Exiting the Mid 250 are Vosper Thornycroft, Merchants Trust, London Merchant Securities, Edinburgh Dragon Trust and Dunedin Worldwide.

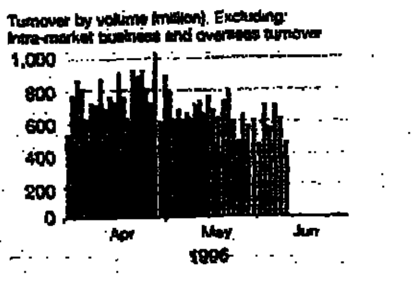
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3769.2	+13.5	FT Ordinary index	2787.6	+8.2
FT-SE Mid 250	4467.4	+5.1	FT-SE-A Non Fins p/e	16.01	16.81
FT-SE-A 350	1904.6	+5.8	FT-SE 100 Fut Jun	3767.0	+12.0
FT-SE-A All-Share	1890.50	+5.40	10 yr Gilt yield	8.03	8.02
FT-SE-A All-Share yield	3.81	3.81	Long gilt/equity yld ratio:	2.21	2.20

Best performing sectors

1 Pharmaceuticals ... +1.8
2 Consumer Goods ... +1.1
3 Leisure & Hotels ... +0.9
4 Engineering ... +0.9
5 Oil: Integrated ... +0.8

Worst performing sectors

1 Electronic & Elec ... -0.5
2 Extractive Inds ... -0.5
3 Banks: Retail ... -0.4
4 Diversified Inds ... -0.3
5 Telecommunications ... -0.2

Far East scare at C&W

Shares in Cable and Wireless, the telecoms group, crashed to the bottom of the Footsie rankings with a decline of more than 3 per cent, as sentiment in the Far East took a dive.

Hongkong Telecom, which is 58 per cent owned by C&W, is in talks with the local government over the future of its monopoly on international direct-dial calls. There was a strong suggestion that the 2006 deadline on ending the monopoly may be brought forward.

HK Telecom tumbled 1.5 per cent in Hong Kong overnight as the worries about early deregulation combined with recent talk of a stock overhang. Big shareholder Citic Pacific recently sold a 2 per cent holding from its 8 per cent stake.

C&W closed 14 off at 420p in turnover of 13m. The stock has been a gruesome underachiever of late, sliding from an all-time high of 554p since early April, after the collapse of merger discussions with BT.

The shakeout has prompted some brokers to recommend the shares as "good value". The Kong Kong deregulation talks throw up all sorts of big ifs, according to analysts.

"The timing and compensation associated with any Hong Kong deregulation are the keys to valuing C&W," said one leading telecoms analyst.

A clutch of recommendations boosted leading issues in the pharmaceuticals sector and helped drive the overall market steadily ahead.

BZW yesterday upgraded the sector as a whole and advised investors to go from "underweight" to "neutral/overweight". Explaining the move, Mr Steve Plag at the investment bank said: "The sector is only trading at a modest premium to the market and yet it offers superior earnings and dividend growth which is not dependent upon economic growth or the consumer and is free from political risk."

Within the sector, BZW highlighted the attractions of Glaxo Wellcome in a 24-page circular entitled 'Time to look beyond Zantac'. BZW believes that "concerns relating to potential patent expiry in the USA are overdone and the market underrates the new product pipeline".

Shares in Glaxo, already boosted by a recent positive note from Morgan Stanley, jumped 20½ to 857½p amid trade of 6.7m. Several other brokers were also said to be positive on the sector. SmithKline Beecham advanced 11½ to 694p in trade of 5.3m.

Also in demand was Zeneca. The shares put on 12 at 1398p on volume of 2.9m as vague takeover talk in the stock returned to the market.

Biotechnology company Celltech Group jumped 37 to 645p, making it the best performer in the FT-SE Mid 250 index, after announcing the sale of its Biologics unit for £42m.

The strong move in Celltech helped boost sentiment in several other biotechnology stocks. Thus shares in British Biotech improved 17 to 2785p, while those of Chiroscience also gained 17, to 450p.

Leading engineer Rolls-Royce bounced strongly as a Merrill Lynch presentation in New York got under way.

The shares surged to third place in the Footsie rankings with a rise of 6 to 228p, in 7.8m traded, as the broker's global sales force was said to have put its weight behind the stock.

In contrast, Lucas Industries continued to slide and the shares, off 3 at 230p, are now almost 11 per cent short of the 256p peak reached earlier this month. The unwinding of arbitrage positions following BBA's aborted takeover bid has depressed sentiment, but yesterday a new bearish factor emerged.

Lucas's US defence arm, which was involved in a $175m legal settlement last autumn, faces a further Pentagon probe, according to US press speculation. And this has provoked concern in London about possible stock overhangs.

Dealers have begun to suggest that the Pentagon uncertainty could leave some Varity holders reluctant to take up their ADRs should the Lucas/Varity merger go through.

National Grid was the best performer in the Footsie, following recommendations from two brokers. The shares put on 6 at 175p in heavy trade of 18m.

Analysts at Kleinwort Benson advised clients to buy the shares, saying: "We think the political concerns have been overdone and the regulatory ones too."

Meanwhile, UBS, another fan of the stock, suggested that the shares should be valued at more than 230p a share, and at 200p in the "absolute worst case scenario".

Slightly disappointing results and a resurgence of regulatory concern sent airports group BAA scuttling lower against the market. The stock ended off 8 at 478p.

Allowing for a property disposal, profits fell short of City expectations, and the management was described as guarded. "The shares are clearly a hostage to regulatory fortune right now," said one top dealer.

At least one leading broker has recently changed its stance from "buy" to "hold". The review of BAA's landing fees is due on July 10.

British Airways continued to harden. There was speculation that KLM could eventually join in the group's ground-breaking marketing link with American Airlines. The stock added 5 at 567p in 8.1m traded.

The stock exchange announcement that BZW, as a marketmaker, had taken a 3.1 per cent interest in BA caused some confusion. The holding was said to be the result of derivatives trading following a warrant issue by BZW in February.

Solid progress in the reported net asset value, in contrast to the shrinkage reported earlier this week by Great Portland Estates, pushed property leader British Land ahead by 13 to 420p. Brokers also warmed to the fatter than expected dividend.

Strong interim results boosted Granada 16 to 831p, with a number of analysts upgrading their full-year forecasts. "I feel very confident about Granada, it's the banker of the sector," said one analyst. "It delivers what it promises."

The second tier of brewing and restaurant companies provided the fizz in the sector again, with the catalyst being Regent Inns' 6.33 per cent stake in Surrey Free Inns, the AIM stock. While Regent said that the holding is an investment, the market believes that there is a bid in the wind. Regent was unchanged at 249p and Surrey leapt 21 to 308p.

Media stocks were in demand. Dealers suggested Carlton Communications was continuing to be rerated and the shares gained another 14 to 508p.

The same sentiment helped Yorkshire-Tyne Tees Television jump 22 to 1108p and also boosted Pearson, which, in addition, was the subject of renewed takeover speculation. The shares finished 16 ahead at 687p.

In the retail sector there was profit-taking in Carpetright, which fell 15 to 629p ahead of next week's figures.

JJB Sports tumbled 30 to 310p, with reports of an agency cross at 325p.

MARKET REPORTERS:
Joel Kibazo, Lisa Wood, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Jun 12	Jun 11	Jun 10	Jun 7	Jun 6	Yr ago	*High	*Low
Ordinary Share	2787.6	2779.4	2766.4	2752.2	2799.3	2505.5	2885.2	2696.7
Ord. div. yield	3.98	4.00	4.01	4.03	3.98	4.25	4.06	3.76
P/E ratio net	16.22	16.15	16.08	16.01	16.23	15.74	17.25	15.98
P/E ratio nil	16.01	15.94	15.87	15.80	16.02	15.50	17.03	15.76

Ordinary Share index since compilation: high 2885.2 19/04/96: low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2776.3	2773.3	2778.9	2784.6	2785.1	2786.2	2786.4	2787.0	2787.0	2787.7	2770.2

	Jun 12	Jun 11	Jun 10	Jun 7	Jun 6	Yr ago
SEAQ bargains	29,804	29,575	31,086	32,397	33,724	22,650
Equity turnover (£m)†	-	1381.8	1302.0	1671.4	1892.1	1584.9
Equity bargains†	-	35,969	36,453	38,283	39,944	32,275
Shares traded (ml)†	-	481.1	468.2	607.7	706.7	659.2

†Excluding intra-market business and overseas turnover.

	Jun 12	Jun 11	Jun 10	Jun 7	Jun 6	Yr ago	*High	*Low
FT-SE AIM	1108.90	1097.50	1101.70	1097.40	1102.00	-	1140.40	965.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	632	Total Highs	101	Total contracts	54,072
Total Falls	538	Total Lows	26	Calls	18,093
Same	1,562			Puts	35,979

June 12*Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jun	3749.0	3767.0	+12.0	3775.0	3742.0	15439	39144
Sep	3752.0	3770.5	+11.5	3779.0	3747.5	4810	24470
Dec	3795.0	3795.0	+11.0	3795.0	3795.0	65	805

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int
Jun		4467.0	+7.0			0	666
Sep		4502.0	+6.0			0	3423

■ FT-SE 100 INDEX OPTION (LIFFE) (*3767) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P
Jun	168	1	120½	2½	78	7	34	18	10½	44	2	88	1	138	1	188
Jul	178	9	135½	16½	97	27½	64	45	38	70	20	103	9	144	3	193
Aug	186½	23½	148½	35	112½	48½	83	69	58	94½	37	123	21	158	11½	199½
Sep	207½	41	168½	52½	138	78	107	88	82½	113	58	139½	42	173	27	203½
Dec†	257	70½			199	106			139½	150½			93½	205		

Calls 5,426 Puts 13,531

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P
Jun	192½	1	143½	2	95½	4	52	10½	18½	27½	4½	62½	1	108½	1	158
Jul	200½	6½	156	12	115½	21	79½	35	50	55	28	82½	13½	118	6	160
Aug	287½	19½	167½	29	130½	41½	97½	58	68½	79½	45½	104½	27½	116½	16½	173½
Sep			187	44			118½	74			88	122			35	186½
Dec†			245	80½			183	115½			129½	158½			87	213

Calls 2,822 Puts 14,898 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	73.5	105	98	Aberforth Smlr C	98	-1	-	-	-	-
-	F.P.	3.39	55	43	Biocompatibles W	43	-4	-	-	-	-
105	F.P.	12.5	124	118	†CA Coutts	118		-	-	-	-
90	F.P.	10.9	108	98	†Carisbrooke	108		-	-	-	-
-	F.P.	18,043	£37⅞	£37⅛	Elect Data Systems	£37⅞		-	-	-	-
-	F.P.	56.2	81	36	†Emtech	65	+2	-	-	-	-
-	F.P.	21.2	118	83	†Epic Multimedia	91	+3	-	-	-	-
115	F.P.	48.8	158	130	European Telecom	157		-	-	-	-
60	F.P.	3.25	65	65	†Fieldens	65		-	-	-	-
-	F.P.	23.0	97½	91	Gartmore Select	92	+1	-	-	-	-
-	F.P.	1.38	65	50	†Hercules Prop	55		-	-	-	-
100	F.P.	7.74	116	112	Hydro-Dynamic P	115		-	-	-	-
-	F.P.	26.6	101	50	INVESCO E & I C	95		-	-	-	-
-	F.P.	14.2	116	106	†Independent Ergy	108	+2	-	-	-	-
200	F.P.	45.0	300	253	Luminar	300	+8	L6.0	2.2	2.5	16.7
-	F.P.	34.9	203	168	†Mulberry Group	176	+1	-	-	-	-
-	F.P.	108.4	500	485	PPL Therapeutics	485	-2	-	-	-	-
-	F.P.	39.0	305	180	†Prism Rail	300	+20	-	-	-	-
190	P.P.	2,080	229	205	Railtrack	216	+1	W20.6	2.8	6.4	7.5
70	F.P.	32.7	123	103	Recognition Sys	121		-	-	-	-
-	F.P.	24.5	99	96	Renaissance US G	98		-	-	-	-
70	F.P.	16.0	75	71	SEA Multimedia	71		-	-	-	-
-	F.P.	187.2	196	190	Schroder Venture	194		-	-	-	-
-	F.P.	-	97	90	Taiwan Inv Tst C	92	+½	-	-	-	-
-	F.P.	22.5	15	7¼	†Thomas Potts	12½		-	-	-	-
-	F.P.	3.10	56	43	†Tom Hoskins	55	+2	-	-	-	-
84	F.P.	3.84	95	91	†Whitecross	93		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jun 11	% chg on day	Jun 10	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2126.95	-2.1	2171.51	1895.81	1.45	-	2520.73	1722.93
■ Regional Indices								
Africa (13)	2835.88	-3.0	2924.20	2467.17	2.56	38.60	3553.86	2272.74
Australasia (6)	2553.37	-1.2	2583.35	2133.22	2.58	29.81	2927.34	2098.51
North America (12)	1866.60	-1.8	1900.27	1703.89	0.73	66.38	2186.39	1488.94

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FT - SE Actuaries Share Indices — The UK Series

	Jun 12	Day's chge%	Jun 11	Jun 10	Jun 7	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3769.2	+0.4	3755.7	3728.8	3706.8	3339.8	4.03	2.15	14.47	86.48	1541.70
FT-SE Mid 250	4467.4	+0.1	4462.3	4452.6	4445.8	3653.9	3.39	1.77	20.79	93.38	1794.64
FT-SE Mid 250 ex Inv Trusts	4511.6	+0.1	4507.0	4497.2	4492.1	3684.8	3.49	1.82	19.66	97.81	1815.15
FT-SE-A 350	1904.6	+0.3	1898.8	1887.3	1878.1	1658.4	3.88	2.07	15.53	42.84	1592.42
FT-SE-A 350 Higher Yield	1833.1	+0.4	1826.8	1817.6	1805.3	1674.3	5.14	1.93	12.61	50.96	1281.39
FT-SE-A 350 Lower Yield	1983.5	+0.3	1978.3	1964.4	1958.1	1642.2	2.73	2.32	19.71	35.03	1374.39
FT-SE SmallCap	2241.07	+0.1	2239.41	2242.92	2239.44	1852.53	2.91	1.77	24.19	31.43	1838.72
FT-SE SmallCap ex Inv Trusts	2242.84	+0.1	2241.67	2246.94	2243.82	1831.55	3.07	1.88	21.89	33.21	1851.77
FT-SE-A ALL-SHARE	1890.50	+0.3	1885.10	1874.87	1866.16	1639.17	3.81	2.05	15.99	41.22	1605.08

■ FT-SE Actuaries All-Share

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3752.9	3750.1	3756.3	3764.6	3764.5	3765.9	3766.4	3766.7	3767.2	3769.2	3748.0
FT-SE Mid 250	4459.6	4460.1	4461.4	4463.1	4463.7	4464.1	4465.1	4465.8	4466.8	4467.4	4458.6
FT-SE-A 350	1897.5	1896.4	1898.8	1902.4	1902.4	1903.0	1903.3	1903.5	1903.7	1904.6	1894.7

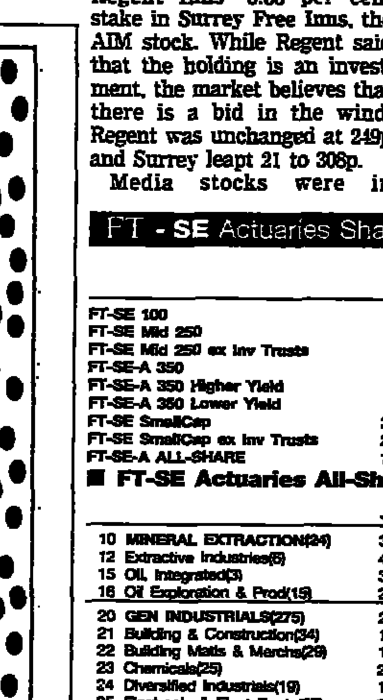
■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1176.5	1177.5	1176.2	1175.8	1175.3	1175.0	1175.0	1174.4	1175.1	1175.5	1179.9	-4.4
Pharmaceuticals	5023.5	5017.1	5059.7	5064.6	5062.1	5067.1	5068.3	5062.7	5063.5	5078.1	4996.1	+82.0
Water	2158.7	2154.0	2156.6	2158.8	2157.0	2158.6	2157.2	2157.2	2158.7	2156.6	2158.5	-1.9
Banks, Retail	4012.8	4013.0	4001.0	4004.5	4003.3	3998.7	4003.1	4006.0	4008.1	4012.3	4029.7	-17.4

TRADING VOLUME

■ Major Stocks Yesterday

	Vol 000s	Closing price	Day's change
3i†	1,200	447	+2
ASDA Group†	2,100	118	



WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 12 / Sch)

BELGIUM/LUXEMBOURG (Jun 12 / Frs.)

CZECH REP (Jun 12 / Korunas)

DENMARK (Jun 12 / Kr)

FINLAND (Jun 12 / Mkk)

FRANCE (Jun 12 / Frs.)

GERMANY (Jun 12 / Dm.)

GREECE (Jun 12 / Drachmas)

ITALY (Jun 12 / Lire)

NETHERLANDS (Jun 12 / Fls.)

NORWAY (Jun 12 / Kroner)

POLAND (Jun 12 / Zloty)

PORTUGAL (Jun 12 / Escudo)

SPAIN (Jun 12 / Pts.)

SWEDEN (Jun 12 / Kronor)

SWITZERLAND (Jun 12 / Frs.)

TURKEY (Jun 12 / Tk Lira)

PACIFIC

JAPAN (Jun 12 / Yen)

AUSTRALIA (Jun 12 / Aus$)

HONG KONG (Jun 12 / H.K.$)

INDONESIA (Jun 12 / Rupiah)

MALAYSIA (Jun 12 / MYR)

NEW ZEALAND (Jun 12 / NZ $)

SINGAPORE (Jun 12 / S$)

SOUTH KOREA (Jun 12 / Won)

TAIWAN (Jun 12 / TW $)

THAILAND (Jun 12 / Baht)

AFRICA

SOUTH AFRICA (Jun 12 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 12 / Can $)
4 pm close

MONTREAL (Jun 12 / Can $)
4 pm close

INDICES

	Jun 12	Jun 11	Jun 10	1996 High	1996 Low
Argentina					
General(29/12/77)		(a) 17823.04		(c) 18881.95 20/5	15828.81 19/3
Australia					
All Ordinaries(1/1/80)	2212.2	2221.7	(c)	2326.00 26/4	2187.40 11/3
All Mining(1/1/80)	1032.7	1048.2	(c)	1118.40 8/5	1004.70 16/1
Austria					
Credit Aktien(30/12/84)	386.91	385.66	389.41	394.89 31/5	352.78 2/1
Traded Index(2/1/91)	1123.50	1118.06	1129.10	1142.81 28/5	975.27 2/1
Belgium					
BEL20(1/1/91)	1761.96	1763.95	1763.52	1773.26 29/5	1574.90 2/1
Brazil					
Bovespa(29/12/83)		(a) 54134.0	54572.0	57108.00 28/5	43801.00 2/1
Canada					
Metals Minls◆(1975)		(a) 5197.55	5238.80	5624.80 8/5	4687.47 16/1
Composite◆(1975)		(a) 5106.30	5134.08	5238.99 22/5	4739.70 15/1
Portfolio§§(4/1/83)		(a) 2496.80	2510.80	2585.58 27/5	2327.38 12/1
Chile					
IGPA Gen♥(31/12/80)		(a) 5368.53	5372.30	5804.33 8/1	5216.28 8/4
Denmark					
CopenhagenSE(3/1/83)	403.72	403.00	403.44	407.07 28/5	368.40 2/1
Finland					
HEX General(28/12/90)	2012.39	2021.16	2022.88	2070.42 31/5	1851.67 10/1
France					
SBF 250(31/12/90)	1455.47	1455.44	1451.27	1467.58 6/6	1250.16 2/1
CAC 40(31/12/87)	2137.29	2137.50	2120.84	2148.29 30/4	1897.85 11/1
Germany					
FAZ Aktien(31/12/58)	902.93	898.76	901.46	904.93 23/5	818.58 2/1
Commerzbank(1/12/53)	2601.70	2588.40	2595.10	2601.90 23/4	2370.20 2/1
DAX‡(30/12/87)	2568.83	2546.35†	2558.31	2570.78 21/5	2284.88 2/1
Greece					
Athens SE(31/12/80)	919.94	931.23	935.04	1017.96 4/3	901.03 29/4
Hong Kong					
Hang Seng(31/7/64)	10958.67	10983.55	11143.24	11594.99 16/2	10204.87 2/1
India					
BSE Sens.(1979)	3939.20	3914.28	3989.34	3939.20 12/6	2828.08 25/1
Indonesia					
Jakarta Comp.(10/8/82)	596.09	608.61†	611.69	630.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2583.41	2572.82	2562.19	2583.41 12/6	2234.81 2/1
Italy					
Banca Comm Ital(1972)	658.55	654.84	661.25	674.10 20/5	572.21 22/3
MIB General(2/1/96)	1116.0	1110.0	1121.0	1142.00 20/5	970.00 27/3
Japan					
Nikkei 225(16/5/49)	22104.80	21817.62	21719.15	22282.86 24/4	19734.70 13/3
Nikkei 300(1/10/82)	312.97	309.85	306.11	318.06 26/4	284.48 11/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x index)							
Jun	2118.0	2128.0	+2.0	2133.0	2113.0	13,252	51,095
Jul	2116.5	2124.5	+2.0	2129.0	2112.0	35	17,564
DAX							
Jun	2568.0	2571.0	-2.0	2582.5	2561.5	28,105	-
Sep	2587.5	2590.5	-1.5	2601.0	2581.5	8,563	-

** Sat Jun 8 Taiwan Weighted Price 6130.77; Korea Comp Ex 803.32. Base values of all indices are 100 except [illegible]: Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and [illegible] ◆ Toronto (c) Closed. (u) Unavailable. ‡ DAX after-hours index: Jun 12 - 2568.93 -1.20.

US INDICES

Dow Jones	Jun 11	Jun 10	Jun 7	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5668.66	5687.87	5697.11	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.22	101.25	101.48	108.09 (14/2)	101.19 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2229.42	2231.70	2237.41	2296.20 (22/5)	1882.71 (18/1)	2298.28 (22/5/96)	12.32 (8/7/32)
Utilities	208.08	208.50	209.47	234.00 (12/2)	205.42 (7/5)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5747.71 (5727.08) Low 5637.63 (5659.69) (Theoretical‡)
Day's high 5728.50 (5703.02) Low 5657.69 (5683.86) (Actual‡)

Standard and Poors	Jun 11	Jun 10	Jun 7	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	670.97	672.16	673.31	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	800.94	802.47	803.53	807.88 (5/6)	702.07 (15/1)	807.88 (5/6/96)	3.62 (21/6/32)
Financial	67.08	67.04	67.34	68.56 (5/3)	58.67 (10/1)	68.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	359.55	360.17	360.61	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	597.57	598.48	599.31	614.99 (22/5)	529.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1230.73	1230.04	1228.76	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

RATIOS

	Jun 7	May 31	May 24	Year ago
Dow Jones Ind. Div. Yield	2.16	2.18	2.15	2.60
	June 5	May 29	May 22	Year ago
S & P Ind. Div. yield	1.83	1.88	1.83	2.21
S & P Ind. P/E ratio	22.74	22.38	22.71	18.77

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Vodafone	6,344,100	37¼	+¾
Kmart	5,606,900	12⅝	+⅛
Hanson	5,352,600	14⅛	-¼
WalMart	4,889,900	25⅝	-⅛
Storage Tech	4,761,000	42⅝	+3¼
Westinghouse	4,532,200	19¼	-½
Seagate Tech	4,359,800	50¼	-3¼
Baxter Intl	3,365,300	46⅞	+1¼
Fed Nat Mtg	2,851,200	31	...
WMX Tech	2,835,100	34½	+¼

TRADING ACTIVITY

● Volume (million)

	Jun 11	Jun 10	Jun 7
New York SE	401.051	337.429	448.251
Amex	21.213	21.302	29.511
NASDAQ	568.197	487.644	617.783
NYSE			
Issues Traded	3,161	3,140	3,135
Rises	1,132	1,093	653
Falls	1,193	1,253	1,803
Unchanged	836	794	679
New Highs	90	75	26
New Lows	29	36	57

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	671.45	672.55	+1.25	673.75	672.55	84,339	130,030
Sep	679.20	678.70	+1.45	679.80	678.70	14,969	68,428

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Jun	22000.0	22120.0	+280.0	22130.0	21980.0	12,853	215,408
Sep	22040.0	22180.0	+320.0	22200.0	22020.0	30,828	168,462

Open interest figures for previous day.

[illegible] GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. [illegible] day's highs and lows are the averages of the highest and lowest prices reached during the day by each [illegible] highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached [illegible] brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Wednesday, June 12, 1996

	Stocks Traded	Closing Prices	Change on day
Fuji Heavy Inds	16.4m	542	+11
Kanematsu Corp	10.8m	788	+37
Clarion	10.7m	610	+30
Matsushita E Ind	6.8m	1920	+40
Toray Inds	5.8m	761	+10
Nippon Steel Cp	5.7m	360	+4
Kobe Steel	5.7m	303	+4
Mitsubishi Hvy	5.4m	938	+24
Nomura Secs	4.7m	2140	+70
Hitachi	4.6m	1040	+20

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

4 pm close June 12

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev Close
23¾	18⅞	AAR	0.48	2.3	22	237	21¼	20⅝	20⅝	-⅛
48⅞	36⅞	AMP	1.00	2.6	19	3722	41¼	38⅞	38⅞	-1⅛
97½	66	AMR			23	8236	95¼	93⅛	95	+1⅝
50½	37⅞	ASA	1.80	4.4	27	731	41⅜	40⅞	40⅞	-⅜
44¾	28⅛	AbbtL	0.96	2.2	19	14168	43⅛	42½	42¾	-⅜
17¼	13¼	ABN Pr x	0.40	3.0	6	403	13⅝	13⅜	13½	
38¾	27	ABM Ind	0.70	1.9	16	12	37⅞	37⅛	37⅛	-⅛
17⅞	13⅞	Acclaim			40	119	u17⅞	17½	17¾	-⅛
50⅜	37⅞	ACE Ltd	0.58	1.3	10	2219	44⅞	44¼	44¾	+⅛
9⅝	9⅛	ACM Gvt In x	0.90	9.4	6	216	9⅜	9⅝	9⅝	
7⅞	6⅝	ACM GvOpp x	0.57	8.4		173	6⅞	6¾	6¾	
7¼	6⅛	ACM Gvt Sp x	0.66	10.6		312	6¼	d6⅛	6¼	
9⅛	8¼	ACM Gvt Se x	0.90	10.8		134	8½	8⅜	8½	+⅛
9½	8¾	ACM Man x	0.90	10.0		130	9	8⅞	9	+⅛
30¾	18½	ActnaCtr	0.52	1.7	7	1830	29⅞	29¾	29¾	
18⅞	6⅛	Acme Elect			60	696	11⅛	10¾	10⅞	-¼
32½	27¼	Acordia x	0.80	2.5	18	11	31⅝	31⅜	31⅜	-⅛
21⅜	12	Acuson			78	345	17¼	17⅛	17¼	+⅛
18⅛	16⅞	Adams Expr	1.66	8.6	0	67	18⅞	19¼	19¼	
21¼	16⅛	AdvMic			7	3721	17⅛	16⅞	16⅞	+⅛
11¼	8½	Advest Grp	0.16	1.5	7	26	10⅛	10⅝	10¼	
26⅛	9⅛	Advo Inc	0.10	1.0	88	278	10⅜	10½	10½	-⅛
50⅞	41⅞	Aegon	1.19	2.6	14	63	48	47½	47⅞	-⅛
8⅛	3½	Aerflx			4	1448	u8¼	8⅝	8⅝	+¼
76¼	68⅞	AetnaL	2.76	3.8	19	6600	73⅜	72⅞	72⅞	-⅞
33	28¼	Aflac	0.40	1.3	12	3980	30⅛	29⅞	30	
20⅞	17¼	AGL Res	1.06	6.1	15	529	17⅞	d17¼	17¼	-⅛
27⅝	21¼	Ahmanson	0.88	3.3	7	2014	26¾	26½	26⅝	-⅛
60⅞	50⅞	AirPrC	1.10	1.9	15	2127	59⅞	58½	58½	

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Continued on next page

حكما من الأصل

4 pm close June 12

NYSE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close June 12

AMEX PRICES

4 pm close June 12

FINANCIAL TIMES Thursday June 13 1996

AMERICA

Positive inflation data provide Dow boost

Wall Street

Renewed demand in the semiconductor sector helped to lift technology shares in early trading yesterday as other sectors experienced more modest gains, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 25.86 higher at 5,694.52, the Standard & Poor's 500 had risen 1.91 to 672.88 and the American Stock Exchange composite was off 1.06 at 598.63. Volume on the New York Stock Exchange came to 220m shares.

A second set of positive figures on inflation helped equities by supporting the Wall Street consensus that the Federal Reserve will not raise interest rates next month.

The Labor Department said that the consumer price index rose 0.3 per cent in May, exactly in line with economists' expectations.

Meanwhile, the Nasdaq composite was given another boost by the release late on Tuesday of the Semiconductor Industry Association's book-to-bill ratio for May. The ratio of products ordered to products shipped, which is considered a key test of industry demand, rose to 0.84 in May, higher than most analysts had expected.

The Nasdaq composite added 8.82 at 1,239.58 and the Pacific Stock Exchange technology index was 0.9 per cent stronger in early afternoon trading.

Semiconductor companies were among the strongest performers. Intel, which is the second largest company on the Nasdaq, added $1¾ or 2 per cent at $77, Applied Materials was up 1\frac{15}{16}$ or 6 per cent to 34\frac{13}{16}$, Lam Research climbed 1\frac{11}{16}$ to 32\frac{11}{16}$ and Novellus Systems gained $1½ at $44.

On the NYSE, LSI Logic added $1⅜ at $28¾ and Micron Technology rose $⅜ to $28⅞.

Elsewhere, Kmart jumped $1⅛, or 9 per cent, to $13¾ on news of very strong demand for the debt it sold last week. Because of the demand, the company's underwriters exercised their over-allotment options – increasing the size of the deal, which was originally supposed to be for $750m, to $1bn.

Trans World Airlines rose $1¼, or 7 per cent, to $20⅞ on news that it had filed for a secondary offering of 8m shares with the Securities and Exchange Commission.

In a related move, Standard & Poor's, the US credit rating agency, said that it had put the company's corporate debt on credit watch with a positive outlook.

Canada

Toronto opened firmer, in company with New York, helped by strong conglomerates and golds but muffled by tarnished base metals prices.

Interest rate-sensitive shares in Canada and the US benefited after US May consumer price data came in within expectations.

The TSE 300 composite index had rallied 10.08 to 5,116.40 by midday with 40.95m shares traded.

Among active stocks, Xillix Technologies put on 20 cents at C$4.70 in 1.62m shares traded. But Bre-X Minerals bucked the rising golds trend, falling 50 cents to C$32.75.

SOUTH AFRICA

Johannesburg rose on rumours of a positive government economic plan due for release on Friday. The overall index gained 42.3 at 6,820.3 as industrials added 63.4 at 8,076.1. But gold shares were softer on an ailing bullion price and the sector fell 14.4 to 1,836.5.

The currency strengthened and bonds were also firm, with expectation that any news from the government on the macroeconomic growth plan would offer direction.

EUROPE

Consumer stocks inject life into Paris

Corporate stories, rather than macroeconomic news, dominated most European markets.

PARIS, like a number of bourses, was broadly unchanged, with the CAC-40 index closing 0.21 lower at 2,137.29, but news and rumour moved some shares either way.

Total, the oil group, dropped FFr5.60 to FFr375.40 as it was mentioned as a possible bidder for Engen, the South African group suspended in Johannesburg with effect from Tuesday; but Elf Aquitaine, also talked about in this connection, rose FFr2.10 to FFr389.60.

The kitchen appliance manufacturer Moulinex climbed FFr2.50, or 3.3 per cent, to FFr79 after the newspaper La Tribune said that Mr Pierre Blayau, the chairman, had lined up a seasoned new management team with international experience.

Retailers stood out again, with Promodes up another FFr17 to FFr1,380 and Pinault Printemps Redoute by FFr20 at FFr1,669. Still in the consumer area, Clarins, put on FFr20 at FFr800 after the cosmetics and skincare company reiterated forecasts of strong sales growth in 1996 and plans for a scrip issue.

FRANKFURT established new intra-day highs in Ibis trading, both before and after the official session. But it was unable to sustain its enthusiasm and the Dax index finished 1.20 lower at an Ibis-indicated 2,569.90.

Turnover was healthier, rising from DM6.5bn to DM8.1bn. Within that, Veba took pride of place, trading in DM662m as the shares rose DM1.75 to DM84.15. The big, energy-based group recently reported a good start to 1996, and re-emphasised its ambitious plans in telecommunications.

Continental, the tyremaker, went ex-dividend, but rose a net 56 pfgs to DM25.99 after saying that a boost from exceptionally strong winter tyre sales was likely to double profits for the first half of 1996.

However, the big rise in the day came in Altana, up DM75.50, or 7.8 per cent at DM1,056 in Ibis trading after Astra, the Swedish drugs major, unexpectedly settled a dispute with Altana's Byk Gulden subsidiary over an alleged infringement of the patent of its ulcer drug, Losec.

After this, **STOCKHOLM** featured the definitive fall of the day, Astra A dropping SKr13, or 4.2 per cent to SKr296 as the Affärsvärlden General index dropped 21.7, or 1.1 per cent to 1,993.4.

MILAN recovered from its turbulence on Tuesday but prices were lower in light midday trading, with many investors staying away ahead of next week's June inflation forecasts and the government's long-awaited supplementary budget. The Mibtel index ended the day up 52 at 15,640.

Dealers said investors appeared reassured by the finance ministry's explanation that comments by Mr Vincenzo Visco, the finance minister, on capital gains tax were misconstrued, and that he was talking about streamlining the tax system rather than extending the 12.5 per cent tax on bonds to other financial products.

Dealers said San Paolo, the bank, gained L331 to L9,975 after a recommendation from Morgan Stanley while Mondadori lifted L434 to L12,750 following good advertising figures earlier in the week.

There were market winners. **MADRID**, unlike most other late closing bourses, kept the bit between its teeth and pushed up to another new high. The general index closed 2.37 higher at 372.37, in active turnover of around Pta49bn.

Repsol extended Tuesday's gains, climbing Pta75, or 1.7 per cent, to Pta4,490 as analysts said both of the oil company's recent Latin American acquisitions were within a reasonable price range, and would prove positive.

Telefónica rose Pta40 to Pta2,495, up 5.7 per cent this week. On Tuesday, the Spanish government indicated that it might slow the pace of telecoms reform, delaying the entry of competition into the market.

ZURICH reacted with guarded relief to the latest US inflationary indicator and the SMI advanced 25.3 to 3,600.90. It was, however, restrained by some specific factors relating to heavyweight stocks.

Roche certificates, which represent almost 20 per cent of the leading index, fell SFr70 to SFr9,830, on talk that one US broker might have reduced its rating for the company.

And a fall of SFr8 to SFr976 in Holderbank reflected SFr17 of dividend.

In contrast, financials profited from various buy recommendations and switches.

AMSTERDAM seemed to be in the mood for fine tuning. The AEX index fell 0.63 to 569.58, and Philips narrowed a loss to end just 20 cents off at Fl 59.30. A Polish newspaper reported Philips' plans to take a majority stake in a Polish lightbulb maker. Separately, a US broker denied rumours of a downgrade of Philips stock, but conceded its removal from a model portfolio.

LISBON's BVL-30 index climbed 14.28 to 1,896.88 in turnover of Esc6.5bn, lifted by the extended strength of Portugal Telecom. The latter's share flotation success this week drew attention to the cement company, Cimpor.

PT rose another Esc82, or 2.2 per cent, to Esc3,798 in heavy volume of 922,014 shares, up 4.9 per cent on Tuesday's striking price of Esc3,620 which the government set for the second stage of its privatisation.

Cimpor, scheduled for its own second privatisation phase, in October, rose Esc105, or 3.5 per cent, at Esc3,084 in 99,916 shares.

And Banco de Fomento Exterior, facing full privatisation within two months' time, rose Esc5 to Esc2,119 in 183,610.

Written and edited by William Cochrane and Peter John

FT-SE Actuaries Share Indices

Jun 12						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1692.14	1691.37	1692.11	1692.59	1693.06	1693.46	1694.82	1694.47
FT-SE Eurotrack 200	1732.94	1732.05	1732.73	1733.69	1733.58	1734.24	1735.14	1733.86
	Jun 11	Jun 10	Jun 7	Jun 6	Jun 5			
FT-SE Eurotrack 100	1688.80	1688.62	1679.84	1687.65	1694.32			
FT-SE Eurotrack 200	1726.73	1724.40	1719.47	1732.51	1728.60			

Base value 1000 (26/10/90); Highday: 100 - 1696.46; 200 - 1736.86 Lowday: 100 - 1690.93 200 - 1731.22. † Partial.

São Paulo up on corporate sales

Brazil's National Industry Federation said that sales by companies in Brazil grew by 10.4 per cent in April, compared with March. This took **SAO PAULO** higher, and at midsession, the Bovespa index was up 618 to 54,752.

MEXICO CITY opened stronger following gains in the Dow, but by mid-morning the IPC index had eased 7.03 to 3,220.29. Trade was light with investors waiting to see how the peso would react to a steep rise in domestic interest rates during the weekly Treasuries auction.

CARACAS was quiet ahead of a 150bn bolivar auction of TEM bills, but the IBC index staged a cautious recovery with a rise of 24.89 to 4,241.67 in midsession. Before the start of trading, the market's 19-share index had fallen for 10 consecutive trading days.

SANTIAGO climbed, with electrical stocks leading the way on strong overseas demand. The blue-chip IPSA index rose 1.1 per cent in early dealing to 98.93. The all-share IGPA was standing 0.65 per cent firmer at 5,408.40.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms June 7 1996	% Change over week	% Change on Dec '95	Local currency terms June 7 1996	% Change over week	% Change on Dec '95
Latin America	(249)	518.36	-1.6	+10.1			
Argentina	(31)	904.90	-0.7	+13.0	554,457.22	-0.7	+12.8
Brazil	(68)	339.88	-3.7	+11.3	1,270.49	-3.6	+14.4
Chile	(43)	700.38	-1.0	-6.4	1,152.33	-0.6	-5.5
Colombia[1]	(15)	604.81	-2.9	+1.1	1,150.39	-2.8	+9.6
Mexico	(65)	544.69	+0.3	+20.2	1,766.17	+1.7	+17.3
Peru[2]	(21)	209.56	-0.8	+5.7	310.41	-0.1	+11.8
Venezuela[3]	(5)	507.23	-3.7	+51.7	5,502.16	-5.4	+110.8
Asia	(632)	264.87	-0.1	+14.1			
China[4]	(24)	58.17	-2.8	+7.5	61.12	-2.6	+7.5
South Korea[5]	(145)	119.77	-1.1	-4.9	123.98	-1.1	-3.4
Philippines	(35)	323.09	+1.7	+24.5	408.63	+1.7	+24.2
Taiwan, China[6]	(83)	137.22	+2.2	+21.7	142.84	+2.4	+23.5
India[7]	(76)	104.35	+4.3	+29.9	128.97	+3.8	+28.5
Indonesia[8]	(44)	124.69	-1.0	+13.7	158.21	-0.9	+16.1
Malaysia	(123)	315.43	-0.4	+16.3	290.75	-0.5	+14.4
Pakistan[9]	(25)	300.43	+0.3	+23.8	377.44	+0.5	+26.8
Sri Lanka[10]	(5)	108.11	+1.4	+3.9	130.52	+2.1	+8.0
Thailand	(72)	365.42	-2.5	-2.8	367.97	-2.3	-2.1
Euro/Mid East	(238)	141.55	+0.5	-0.1			
Czech Rep	(5)	71.96	-2.8	+19.9	66.87	-1.9	+25.7
Greece	(47)	245.60	-0.8	+1.7	403.16	-0.5	+4.2
Hungary[11]	(8)	182.89	-0.0	+65.5	293.82	+0.5	+81.8
Jordan	(8)	171.07	-1.8	-7.4	255.36	-1.8	-7.3
Poland[12]	(22)	672.99	+6.3	+57.8	1,148.91	+7.2	+73.2
Portugal	(26)	124.70	-1.4	+7.7	135.73	-0.9	+14.2
South Africa[13]	(63)	235.19	-0.6	-8.9	211.92	-0.5	+9.1
Turkey[14]	(54)	141.08	+8.2	+35.0	5,237.27	+8.7	+75.2
Zimbabwe[15]	(5)	379.72	-1.2	+38.2	549.91	-1.2	+45.8
Composite	(1118)	300.96	-0.5	+8.1			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

The Czech Republic's equity market has largely overcome the sharp reverse seen in immediate response to the inconclusive election result at the start of this month, writes Michael Morgan. The PX-50 index dropped 4.1 per cent a day after the polls as it became clear that the ruling coalition government, headed by Mr Vaclav Klaus, had failed by just two seats to win an overall majority. Yesterday, as coalition parties met to discuss the make-up of what was likely to be a slimmed down cabinet, the consensus among analysts was that the country's economic reform was likely to continue.

Foreign & Colonial, however, questioned the future pace of the reforms in what was always seen as the most politically stable country in central Europe.

UBS believed that Czech political stability was little changed, since politics would continue to be dominated by centre parties. "As no immediate changes to government policy are likely, the short term impact of the minority government on the market should be minimal," it said.

James Capel thought that the absence of a clear mandate did mean that some elements of economic reform would inevitably be put on the back burner. However, this should not cloud the significant achievements seen over the past few years or distract from the strong economic fundamentals.

ASIA PACIFIC

Nikkei resurgent on higher bonds, lower yen

Tokyo

A rise in bonds and a lower yen boosted sentiment, and the Nikkei average broke through 22,000 for the first time this month, *writes Emiko Terazono in Tokyo.*

The 225 average rose 287.18 to 22,104.80 after moving between 21,883.24 and 22,130.63. A decline in long-term interest rates was triggered by Tuesday's decision by the Ministry of Finance to resume outright buying of government bonds for the first time in two years and nine months. This also boosted the dollar against the yen, and prompted buying of export-oriented issues.

Volume totalled 444.4m shares against 312m, rising above 400m for the first time in seven trading days.

Domestic institutions and foreign investors purchased blue chip electricals, while a rise in the futures market triggered arbitrage buying.

The Topix index of all first section stocks rose 13.10 to 1,684.63 and the Nikkei 300 by 3.02 to 312.87. Advances led declines by 895 to 170, with 148 issues unchanged.

In London the ISE/Nikkei 50 index put on 3.16 at 1,489.87.

High-tech issues were higher on the yen, while semiconductor related stocks reflected a rise in Tuesday's book-to-bill ratio for May, which indicates the supply and demand balance for semiconductor chips in the US.

Matsushita Electric Industrial rose Y40 to Y1,920, Sony Y80 to Y7,060, Toshiba Y16 to Y778 and NEC Y30 to Y1,210.

Car companies were also higher on the yen's decline. Toyota Motor gained Y20 to Y2,540 and Honda Motor Y40 to Y2,700. The currency factor, however, had a negative effect on utilities, which are heavy importers of fuels.

Profit-taking depressed electric power and gas issues. Tokyo Electric Power slipped Y10 to Y2,770, Chubu Electric Power lost Y30 to Y2,500 and Osaka Gas shed Y7 to Y404.

In Osaka, the OSE average rose 301.79 to 23,228.63 in volume of 31.2m shares.

Roundup

Manila took a holiday. **SYDNEY** took a knock from the lower bullion prices, gold shares dropped 2.3 per cent and the All Ordinaries index, also weighed down by lower base metals prices, closed 9.6 off at 2,212.1 in A$570.5m turnover.

JAKARTA fell 2.1 per cent on foreign-led selling of heavyweight stocks, the JKSE composite index losing 12.51 at 596.10. One broker said that offshore investors liquidated positions to participate in several initial public offerings expected in June and July, or to take funds out of the country because they felt that the market had lost impetus.

BANGKOK declined 1.3 per cent to its lowest level for more than six months on nagging worries about the political and economic situation. The SET index ended 15.98 lower at 1,248.77 in Bt5.3bn turnover.

BOMBAY reported sustained buying by foreign institutions as the BSE-30 index gained 24.92 at 3,939.20 after posting a 19-month intra-day peak of 3,972.38.

KARACHI weakened on pre-budget selling by small investors, but short-covering confined its closing fall to 8.20 at 1,706.61, after 1,680.92 at noon.

SEOUL slid after worrying comments from the Bank of Korea offset the fledged factor, following Morgan Stanley's decision to raise its weighting in the market.

The composite index ended down 15.20 at 873.36 in turnover of Won562.0bn as the central bank's governor highlighted problems with the trade deficit and inflation.

TAIPEI rose strongly. The weighted index closed 176.03 up at 6,301.83, with large-cap shares continuing to be boosted by their prospective inclusion in the MSCI index.

HONG KONG fell ahead of further US data and concern over Hongkong Telecom and Cathay Pacific. The Hang Seng index ended 34.88 off at 10,958.67, with turnover up from HK$3.8bn to HK$4bn.

Hongkong Telecom receded HK$0.20 to HK$13.60. The stock dominated trading after the announcement that the government and the company are to review Hongkong Telecom's international operations, which it currently operates as a monopoly.

Cathay Pacific fell on rumours that China National Aviation will place 90m shares, or 2.6 per cent of the equity. There was talk in the market that BZW Asia was to place the shares at a 3 per cent discount to Cathay's share price. The stock lost HK$0.80 to HK$13.20.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of lines of stock	TUESDAY JUNE 11 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 10 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (79)	201.79	0.1	194.85	139.63	161.17	169.39	0.2	4.36	201.65	195.23	139.05	161.03	[illegible]	[illegible]	[illegible]	[illegible]
Austria (25)	192.46	-1.0	185.86	133.18	153.73	153.67	-1.0	1.82	194.41	188.21	134.05	155.25	[illegible]	[illegible]	[illegible]	[illegible]
Belgium (27)	210.57	0.1	203.33	145.70	168.18	164.10	0.1	4.06	210.44	203.73	145.11	168.05	[illegible]	[illegible]	[illegible]	[illegible]
Brazil (28)	162.65	-0.8	157.06	112.54	129.91	299.21	-0.8	2.21	163.91	158.68	113.02	130.89	[illegible]	[illegible]	[illegible]	[illegible]
Canada (89)	161.69	-0.6	156.13	111.88	129.15	158.79	-0.5	2.36	162.66	157.48	112.16	129.89	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (30)	295.04	0.4	284.89	204.15	235.65	237.90	0.4	1.89	293.76	284.39	202.56	234.58	[illegible]	[illegible]	[illegible]	[illegible]
Finland (23)	193.97	0.5	187.30	134.22	154.93	191.14	0.1	2.61	193.09	186.94	133.15	154.19	[illegible]	[illegible]	[illegible]	[illegible]
France (97)	196.31	0.4	189.56	135.83	156.79	160.25	0.4	2.98	195.47	189.24	134.79	156.09	[illegible]	[illegible]	[illegible]	[illegible]
Germany (60)	168.28	-0.5	162.49	116.44	134.40	134.40	-0.5	1.65	169.07	163.68	116.58	135.01	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (59)	428.70	-1.4	413.96	296.64	342.40	425.99	-1.4	3.35	434.87	421.01	299.86	347.26	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (16)	285.37	0.8	275.55	197.46	227.92	255.13	0.6	6.36	282.92	273.91	195.09	225.93	[illegible]	[illegible]	[illegible]	[illegible]
Italy (59)	80.92	-0.7	78.14	55.99	64.63	93.62	-0.8	2.34	81.45	78.86	56.17	65.04	[illegible]	[illegible]	[illegible]	[illegible]
Japan (481)	152.98	0.2	147.71	105.85	122.18	105.85	0.6	0.72	152.68	147.81	105.28	121.92	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (107)	550.29	-0.5	531.30	380.73	439.47	529.36	-0.6	1.70	553.18	535.53	381.49	441.73	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (18)	1230.24	-2.2	1187.93	851.25	982.59	10276.43	-0.4	1.38	1258.04	1217.94	867.47	1004.60	[illegible]	[illegible]	[illegible]	[illegible]
Netherland (19)	299.32	0.2	289.03	207.11	239.07	236.00	0.2	3.07	298.74	289.22	205.99	238.56	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (15)	77.15	0.4	74.49	53.39	61.62	60.82	0.4	4.52	76.83	74.38	52.98	61.35	[illegible]	[illegible]	[illegible]	[illegible]
Norway (35)	255.38	0.2	246.61	176.72	203.98	227.56	0.2	2.00	254.96	246.83	175.81	203.60	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (44)	419.72	-0.7	405.29	290.42	335.23	272.53	-0.7	1.38	422.67	409.20	291.45	337.52	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (45)	358.15	-0.9	345.83	247.82	286.05	340.56	-1.0	2.13	361.42	349.90	249.22	288.61	[illegible]	[illegible]	[illegible]	[illegible]
Spain (37)	180.04	1.2	173.85	124.58	143.80	176.70	1.1	3.15	177.92	172.25	122.68	142.08	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (48)	360.75	0.2	348.34	249.62	288.13	358.76	-0.2	2.37	359.85	348.38	248.13	287.35	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (38)	231.81	0.0	223.84	160.40	185.15	182.01	-0.1	1.63	231.86	224.47	159.88	185.15	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (46)	170.87	-2.4	164.99	118.23	136.47	168.23	-2.4	1.98	175.13	169.54	120.76	139.85	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (201)	233.60	0.9	225.57	161.64	186.58	225.57	0.6	4.12	231.51	224.13	159.63	184.87	[illegible]	[illegible]	[illegible]	[illegible]
USA (627)	273.38	-0.2	263.98	189.16	218.35	273.38	-0.2	2.16	273.87	265.14	188.84	218.69	[illegible]	[illegible]	[illegible]	[illegible]
Americas (772)	249.51	-0.2	240.92	172.64	199.28	209.78	-0.2	2.16	250.04	242.07	172.41	199.67	[illegible]	[illegible]	[illegible]	[illegible]
Europe (715)	208.57	0.4	202.36	145.01	167.38	185.08	0.2	3.05	208.82	202.16	143.99	166.75	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (136)	306.51	0.3	295.96	212.08	244.81	268.38	0.0	2.29	305.60	295.86	210.73	244.04	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (831)	186.97	0.0	180.26	114.84	132.56	118.90	0.3	1.18	185.98	180.66	114.43	132.52	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1546)	184.03	0.2	177.70	127.34	146.99	142.72	0.3	2.07	183.71	177.85	126.67	146.70	[illegible]	[illegible]	[illegible]	[illegible]
North America (726)	266.48	-0.2	257.31	184.39	212.83	265.77	-0.2	2.17	266.98	258.47	184.10	213.20	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (514)	191.33	0.1	184.75	132.39	152.82	150.59	0.0	2.46	191.20	185.11	131.84	152.68	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (350)	286.53	-0.8	276.68	198.26	228.85	247.30	-0.7	3.09	288.72	279.52	199.08	230.56	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1736)	185.26	0.1	178.89	128.19	147.97	147.10	0.2	2.07	185.05	179.15	127.60	147.77	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2162)	210.48	-0.1	203.24	145.64	168.11	179.09	0.0	1.91	210.69	203.96	145.28	168.25	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1882)	245.36	-0.1	236.92	169.78	195.97	233.02	-0.1	2.52	245.54	237.72	169.31	196.08	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2363)	212.58	0.0	205.26	147.09	169.78	183.46	0.0	2.11	212.60	205.83	146.60	169.77	[illegible]	[illegible]	[illegible]	[illegible]

Latest prices were unavailable for this edition.

Central bank to build on repo growth for market operations

Further gilt reforms likely

By Graham Bowley and Samer Iskandar

The Bank of England, the UK central bank, yesterday gave the strongest signal yet that it is planning wide-ranging reform of the sterling money markets when it said it was considering using gilt repos in its daily money market operations.

The move – which could come within months – follows the rapid growth of the open market in gilt sale and repurchase agreements, or repos.

Mr Ian Plenderleith, Bank of England executive director, said the growth of the open repo market – which allows UK government bonds, or gilts, to be bought and sold more easily – meant it could now be used as a tool to control daily money market conditions and interest rates. Daily turnover now averaged around £12bn ($18.4bn) he said.

"With the track record we now have of the performance of the repo market to date, we can be much more confident that it would prove capable of providing an effective avenue for our official money market operations if we wish to make use of it," he said.

At present, the Bank of England adds to or drains cash from the banking system by buying or selling bank bills on a daily basis through the City of London's seven discount houses. It also implements base rate changes through these money market operations. But switching to the gilt repo market would potentially open up the Bank's channel of influence to a wider range of participants and ensure the effective transmission of its interest rate decisions across the economy.

"The Bank will be able to work in a bigger arena," said Mr Kevin Adams, gilts strategist at BZW, the investment banking arm of Barclays. "This will reduce market volatility and increase certainty about [money market] interest rates," he said.

The move would be the latest in a series of reforms aimed at liberalising the gilts market to bring it in line with more modern practice abroad. Mr Plenderleith, speaking at a gilts conference in London, also announced the introduction of gilt strips, instruments which allow the splitting and separate trading, of a bond's interest payments and principal – and the possibility of auctions of index-linked gilts – bonds which protect against inflation.

He said the repo market had grown to a size of around £36bn. Repos had allowed new investors and traders to enter the gilt market by reducing the cost of financing gilt positions to below the London interbank offered rate (Libor).

Plans to lift beef ban welcomed

By Caroline Southey in Brussels

Britain yesterday tabled a draft framework agreement for the phased lifting of the beef export ban which it hopes will end the three-month old impasse with the European Union over mad cow disease.

The document was met with conflicting views in Brussels, with some officials arguing it formed a realistic basis for a deal while others described it as over-ambitious.

Britain issued the draft to Mr Franz Fischler, agriculture Commissioner, on Tuesday and to member states yesterday. It sets out the terms under which the EU would lift the export ban in a staged process in six areas, detailing what steps the UK would need to take before the ban was eased and the verification process for each stage.

Some EU officials said the framework as tabled could never be agreed by the Florence summit at the end of next week, the target date set by the British government.

But an EU diplomat said he believed a "deal was emerging" because the document showed that Britain accepted it had "to do its bit" before there were any moves to ease the ban.

The paper deals only with the BSE issue. EU officials said a "political declaration" would accompany the framework agreement, announcing the end of Britian's non-cooperation policy.

The survival of the proposal depends on the European Commission's formal response which Mr Jacques Santer, Commission president, is expected to announce on Tuesday after a meeting of all the Commissioners.

Exports of potentially BSE-contaminated meat and bone meal tripled in the year after the government banned its use for cattle and sheep feed in the UK, data from the Department of Customs and Excise show, Norma Cohen and Deborah Hargreaves write.

The Ministry of Agriculture yesterday confirmed that much of the increase in exports went to neighbouring European Union member countries, but claimed that the shipments were made with the full knowledge of the EU Commission.

The disclosure reported in today's issue of Nature magazine is nevertheless likely to sour relations with Britain's EU partners even further. "The European Commission was happy with what we were doing," MAFF said yesterday.

When meat and bone meal were banned from cattle feed in the UK in mid-1988, there was no scientific proof that BSE could spread to other animal species such as pigs or chickens.

But in 1990, pathology studies in the UK determined that there were some circumstances under which BSE could be transmitted across species.

● The UK's National Farmer's Union is to campaign against parliamentary approval for revised European Commission plans which it claims will require the slaughter of 66,000 more cattle than the 80,000 already proposed.

The European Commission yesterday called on Britain to kill tens of thousands more cattle as part of its scheme to slaughter cows most at risk of contracting BSE in order to get the worldwide ban on beef exports lifted.

At the end of a meeting of EU vets yesterday, the Commission said it would endorse Britain's plan for selective slaughter as long as ministers extended it to include cattle born in 1989. However, the UK government said it would resist extending the cull.

Clarke upbeat on economy in speech to City

By Robert Chote, Economics Editor

Mr Kenneth Clarke, the chancellor of the exchequer, yesterday prepared the ground for a cut in his forecast for economic growth next month and tried again to play down expectations of big tax cuts in his November Budget.

But the chancellor nonetheless adopted a resolutely upbeat tone in his annual speech to the City of London at the Mansion House. He predicted that the economy would accelerate through this year and asserted that Britain was "the most liberal, open and outward-looking economy in Europe".

The chancellor also predicted in an interview with the Western Daily Press that unemployment should fall below 2m by the election, although it would be a "photo-finish". To achieve this the underlying rate of decline in unemployment would have to accelerate.

Figures released yesterday showed the number of people without work and claiming benefit dropped to a five-year low of 2,167,500 last month. But companies also shed more jobs in the first quarter of this year than in any equivalent period since 1993.

Mr Clarke told his audience at Mansion House that excitement about where in the range of 2-3 per cent he would make his prediction of 1996 growth in next month's summer forecast was misplaced. He conceded that growth in European export markets had been disappointing since last November's Budget, but warned against placing too much reliance on the accuracy of economic forecasts.

"The most important message I believe we should take from the forecasts is that almost all serious commentators expect the UK economy to strengthen through this year and that stronger growth will continue next year," he said.

Mr Clarke also warned the Euro-sceptics in his party that they were putting Britain's influence in the world's largest single market at risk.

In his speech, Mr Eddie George, the governor of the Bank of England, warned that efforts to shed stocks of unsold goods represented a down-side risk to economic activity in the short term. But he also predicted that the economy would rebound.

The pro-European lobby at Westminster is set to approach top UK business executives for donations to build a war-chest to fight a referendum on Europe.

The campaign – which has already won £250,000 in backing from top business figures – aims to generate more than £5m largely from FT-SE 100 companies with European interests to counter the Eurosceptic faction of the Tory party and Sir James Goldsmith, the Anglo-French billionaire.

Europhile MPs want to redress the balance of funds following the disclosure that Sir James, who has committed £20m to his Referendum party, has also provided financial assistance to the European Foundation, a Eurosceptic campaign group headed by Mr Bill Cash, the Tory MP.

Following a barrage of criticism both inside and outside the Tory party, Mr Cash yesterday severed the group's financial links with Sir James.

UK NEWS DIGEST

Agents asked for $76m shortfall

LLOYD'S Mr David Rowland, Lloyd's of London chairman, yesterday asked agents at the insurance market for an extra £50m ($76.5m) to help overcome a shortfall in funding for the market's recovery plans. Latest figures on the cost of the plan, which includes a £3.1bn out-of-court offer to lossmaking and litigating Names, show arrangements are needed to fill a £250m gap when the proposals are implemented this summer.

Some £135m is expected to be recouped eventually from Names, individuals whose assets have traditionally supported Lloyd's. But Mr Rowland is understood to have told the agents that an extra £50m from them would help keep a proposed bank loan below £100m.

Speaking at the Mansion House last night, Mr Rowland said Lloyd's was "just within sight of the final resolution of our problems". But agents remain angry at what they see as a political decision to increase their contribution, on top of £200m cash they have already committed and an expected £60m in profit commissions foregone.

However, there were signs last night that agents might offer more if there were assurances no more would be demanded. "We want certainty that this is not the thin edge of the wedge," said one. Terms of the main out-of-court offer to Names have been finalised but Lloyd's is still juggling other details, including "top up" help to protect the homes and incomes of ruined Names.

Ralph Atkins, Insurance Correspondent

Nuclear submarines left to rust

The hulks of Britain's nuclear submarines will be left rusting in naval dockyards at Devonport in Plymouth and Rosyth in Fife until at least 2012, Mr Michael Portillo, the defence secretary, revealed yesterday. Giving evidence to the House of Commons defence committee on the Ministry of Defence annual policy paper, Mr Portillo said that leaving the submarines intact and afloat was the safest option until a nuclear waste store at Sellafield in the north of England became available.

There are currently 10 nuclear submarines laid up and that number is likely to double over the next 15 years. Spent nuclear fuel is removed from submarines when they are decommissioned, but the radioactive reactor core is left in the boat, and the hull is resealed. The process is akin to decommissioning civil power stations, which the government is currently proposing to leave standing for 135 years to allow radioactivity to decline before dismantling.

Mr Portillo suggested that the radioactive core from the submarines could be removed and stored in the Sellafield depository as soon as it becomes available around 2012. However, Scottish committee members were dismayed by the delay. MPs were also disappointed that the MoD is to press ahead with the sale of the armed forces married quarters estate, despite intense opposition from all levels of the services. The disposal is expected to raise about £1.6bn ($2.44bn) for the MoD, through a sale to institutional investors, including Japanese banks.

Bernard Gray, Defence Correspondent

Engineering output buoyant

Engineering output and orders bounced back in the second quarter, bolstering the sector's growth prospects for this year, according to the latest findings from the Engineering Employers' Federation to be published later this month. Soundings from the trade body's member companies in the UK regions indicate the sector will see output volumes grow between 2 per cent and 3 per cent this year, contradicting a series of gloomy reports recently about the state of manufacturing as a whole.

Engineering accounts for output of some £150bn ($229bn) a year, nearly half total manufacturing production, and employs just under 2m people. While export markets in other parts of Europe have weakened this year due to a slack continental economy, many engineering businesses are expanding sales in the US and east Asia.

Last year, the engineering industry saw strong growth of 2.7 per cent in volume terms on 1994, according to the Office for National Statistics. The growth was one of the mainstays of the overall manufacturing recovery. *Peter Marsh, London*

Water usage to copy US model

Ofwat, the water industry regulator, will require water companies to produce regular plans, inspired by US practice, for promoting efficient water use following last summer's debacle over water supplies.

Mr Ian Byatt, the director-general of Ofwat, is expected to unveil the new guidance to coincide with a London conference tomorrow at which US officials will share their experience in promoting water conservation. Today they will be giving evidence to the House of Commons' environment committee inquiry on water supplies.

Following last summer's drought, when a third of water consumers were banned from using hosepipes and garden sprinklers, water companies have been given a statutory duty to promote efficient use of water by their customers.

A US consultants' study commissioned by the Environment Agency for the conference points out that relying on "educational incentives" and "volunteer approaches by customers" is ineffective. Measures put forward by Ofwat could include: compulsory metering for users of sprinklers which consume as much water in one hour as a household in two days; free repairs of domestic water leaks; incentives for customers, through lower bills, to fit new equipment reducing the amount of water consumed by toilet flushes, showers and taps.

Leyla Boulton, Environment Correspondent

London clearing house sold

Derivatives exchanges and their clearing members are set to take over ownership of the London Clearing House (LCH) from six UK banks, according to proposals announced yesterday.

The LCH clears and settles business traded at London's financial, commodities, metals and oil futures and options exchanges, as well as at Tradepoint, the electronic share trading system, and holds funds of some £3bn ($4.59bn) in margin payments. *Richard Lapper, Capital Markets Editor*

US company to invest in N Irish generator plant

By John Murray Brown in Belfast

The Northern Ireland peace process received an economic boost yesterday with the announcement of one of the province's largest ever overseas investments. F.G. Wilson, the subsidiary of Emerson Electric of the US, is to set up a $113m (£73.8m) joint venture with Caterpillar, the US construction and mining machinery group, to make diesel generating sets for the power industry.

The investment will make the new company the world's largest producer in the rapidly growing diesel-powered generators sector. It will more than double production at F.G. Wilson, and bring the workforce close to 2,800, turning the company into Northern Ireland's second largest employer after Northern Ireland Electricity.

The deal, which is supported by a £34m grant from the government's Industrial Development Board, follows an announcement two weeks ago that Copeland Corporation, Emerson Electric's wholly owned subsidiary, was investing £33m to make compressors for refrigerators and air conditioning at a plant in the employment blackspot of Cookstown.

The US is Northern Ireland's largest investment partner with investments of more than £465m since 1990 in 51 US subsidiaries. F.G. Wilson is one of the UK's most export-dependent manufacturing companies with 92 per cent of sales outside the UK. China is the largest buyer.

The chairpersons of the three strands of the all-party talks take their seats for the first time: (From left) General de Chastelain, Mr George Mitchell and Prime Minister Holkeri *Press Association*

Bickering persists over talks chairmanship

The third day of Northern Ireland's all-party talks was marked by bickering between the main unionist parties yesterday following the compromise deal struck early on Wednesday which resulted in the former US Senate majority leader, Mr George Mitchell, becoming the chairman of the main strand of the talks.

Proceedings got under way yesterday morning with the parties committing themselves to the non-violent principles outlined in the report that Mr Mitchell prepared on arms decommissioning for the British and Irish governments.

In breaks in the talks, however, rival unionists became embroiled in bitter recriminations, with the Democratic Unionists Mr David Trimble, the Ulster Unionist leader, of "lying to the people of Ulster". Mr Trimble said: "I've not sold out Ulster. What is at issue is whether we have someone who is simply a chairman or someone who is some sort of political supremo with a major role in directing negotiations." Mr Mitchell's powers will be discussed in sub-committee meetings before being tabled at the plenary session next Wednesday.

Lottery boost for films proposed

By Alice Rawsthorn

The Arts Council, the national promotion body, is considering plans to invest £160m ($245m) of National Lottery funding in film production over eight years in one of the most ambitious initiatives to date to provide financial support for the UK film industry.

The proposals involve the introduction of a "film franchising" system whereby Lottery money would provide up to 35 per cent of a film's production budget with additional finance made available for pre-production and distribution.

The feasibility study, a copy of which has been obtained by the Financial Times, was discussed by the Arts Council's lottery panel on Monday and Tuesday. The panel decided to consult the film industry with the aim of presenting final proposals for the Arts Council's approval at the end of next month.

For years the UK film industry has lobbied for government support, notably for the introduction of tax breaks similar to those available elsewhere.

The government has resisted demands for fiscal reform, but the Arts Council last summer began allocating Lottery funds to the film sector. It has since awarded £14.6m in grants to 28 films. The new scheme would make a significantly higher level of Lottery funding available for production. Film makers would be invited to apply for grants by a process of competitive tender.

Rail shipments suffer in Channel price war

By Charles Batchelor, Transport Correspondent

The fierce price war between the Channel tunnel and the ferries has made it so cheap to carry goods across the Channel by truck that long-distance rail shipments have begun to suffer. The result has been to increase the number of trucks on the roads and to nullify UK and European Union policies to shift freight from road to rail.

Egger, a German manufacturer of fibreboard and chipboard, considered making shipments by rail to a depot in Selby, Yorkshire but after comparing the cost of shipping goods through the tunnel by conventional rail wagon or by truck carried on a shuttle wagon it opted for truck.

"Bulk rail is uneconomic" when compared with road haulage rates, said Mr David Gardner, a director of Egger (UK). "This is extremely disappointing as all our bulk manufacturing plants within Europe have excellent rail links."

Egger will now ship 40,000 tonnes of board a year to the UK by road.

"Wood products are heavy and ideally suited to rail shipment," said Mr Steve Barlow, managing director of Potter Group, which runs the Selby depot. "If rail cannot be competitive with road for those products then what can be?"

A large haulage group could expect to negotiate a rate through the Channel tunnel for a truck with trailer carrying 22 pallets of between £100 ($153) and £120 compared with the £660 it would cost for a conventional rail wagon carrying 48 pallets. This would result in a cost of just £4.70 per pallet by shuttle compared with £12.83 a pallet by rail wagon.

"No wonder the Channel tunnel through-rail business is struggling," said Ms Julia Clarke, director of the Rail Freight Group, representing freight operators. "In the early days after the tunnel opened the discrepancy was not so great but in the meantime shuttle fares have come down sharply."

Eurotunnel said it it was unfair to compare rail with shuttle shipments because one was charged by the tonne while the other was charged by the truckload. The economics of moving goods by road or rail also depended on the distance involved. Rail freight shipments had also risen to nearly 209,000 tonnes last month from 120,000 tonnes in May 1995.

US locomotive experience wins orders

By Charles Batchelor, Transport Correspondent

Freight shipments on the privatised rail network will increasingly be hauled by US-built locomotives, following the decision by the new owner of British Rail's heavy freight business to place a large order with General Motors.

Wisconsin Central Transportation, which has taken over BR's trainload freight operations under the privatisation of rail services, last month ordered 250 diesel-electric locomotives for delivery over the next 10 years at a cost of about £250m ($382.5m).

The decision dismayed European suppliers of rolling stock, although it did not come as a surprise. Wisconsin says it "evaluated" the ability to deliver of companies such as Brush Traction of the UK; GEC-Alsthom, the Anglo-French group; and Adtranz, which comprises the rail operations of ABB and Daimler-Benz, but it did not invite them to tender.

Rolling stock manufacturers with operations in the UK have had a difficult three years because new orders dried up during the preparations for privatising BR. Internationally, the sector has been forced into new alliances to remain competitive.

"We have dealt with British suppliers in the past, but the Americans had a lot more experience in this area," says a former BR manager now with Wisconsin. "We looked at delivery times and at how their locomotives stood up to intensive use. We wanted the best value for money."

Apart from the fact that Wisconsin is a US company and has dealt with GM on its home territory, US suppliers have the advantage of a large home market and long production runs. This means they can pare manufacturing costs while at the same time developing reliable locomotives.

General Motors and General Electric, its main rival, have 400 customers in the North American Free Trade Area operating more than 30,000 freight locomotives. Ten of these companies operate fleets of 1,000 locomotives or more, comparable with those of the biggest European state railways.

European manufacturers have not received big orders for freight locomotives because of the more modest requirements of their main customers – state railways. European companies have also put much of their energy into developing high-speed passenger locomotives such as the French TGV, built by GEC-Alsthom, and the German InterCity Express trains built by Siemens.

The Wisconsin order represents a considerable investment for the company and dwarfs its existing US fleet of just 215 locomotives. It is also a valuable order for GM, which expects to supply 350 locomotives a year, of which 70 are for customers outside North America. The total annual market for freight locomotives is estimated at between 600 and 1,000.

The volumes delivered by the two main US suppliers also mean that they can standardise components. The Association of American Railroads plays an important role in imposing standards in areas such as rolling stock couplings, which leads to lower costs.

Supplying locomotives for use in the UK will require GM to take account of local conditions in terms of loading gauges and power.

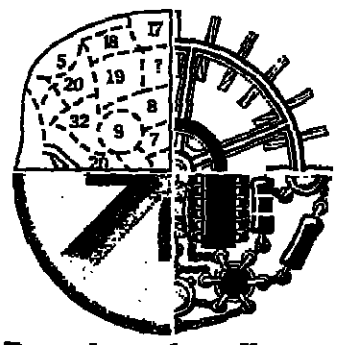
While the Wisconsin order is much larger than any previously placed by UK freight operators, GM locomotives do already operate on the British Rail network. Mendip Rail uses them to haul quarry stone, while National Power has one for hauling limestone and has ordered five more.

BR's refusal to make surplus freight locomotives available to private operators may have hastened penetration of the UK market by US manufacturers.

"As soon as BR has no further use for equipment, they send it for scrap or put it in a strange state of suspended animation, out of others' reach," Mr Keith McNair, National Power's director of fuel management, wrote in a recent edition of Rail magazine.

Whether or not BR has contributed to the Americans extending their bridgehead in the UK, they are unlikely to stop there. The privatisation of the railways throughout Europe will offer further opportunities and pose a threat to European manufacturers in their home markets.

Worth Watching · Vanessa Houlder



Promise of earlier BSE testing

Scientists are urgently searching for a test to diagnose BSE in cattle at an early stage. At present, BSE, like Creutzfeldt-Jakob disease in humans, can be confirmed only by post-mortem.

Researchers at the Institute for Animal Science and Health at Lelystad in the Netherlands believe they have discovered a pre-clinical test for scrapie in sheep that could possibly be adapted for BSE and CJD.

According to today's Nature magazine, the scientists were able to detect the mutant prion protein responsible for scrapie in the tonsils of sheep about a year before the onset of the disease. The researchers point out that if the test could be adapted for cattle, it might avoid the need for the mass slaughter of potentially infected cattle.

Institute for Animal Science and Health: the Netherlands, tel 320235238; fax 320238050.

Keeping awake at the wheel

Renault, the French car and truck maker, is developing a device to stop drivers falling asleep at the wheel. Drowsiness when driving is the second most common cause of accidents involving heavy trucks and coaches in France, according to research conducted by the European Centre for Socio-Economic Research into Risks of Accidents.

A small camera installed in the dashboard would monitor the driver's blinking patterns to measure how long his eyelids are closed. If the pattern revealed a loss of alertness, an alarm would go off.

The system can operate only under low lighting conditions, because strong light interferes with the camera's ability to process the image, especially if the driver wears spectacles. But the overwhelming majority of truck accidents in France that are caused by a loss of vigilance occur at night.

Renault: France, tel 41046336; fax 41043269.

Listening in with the Internet

PC users will be able to receive high fidelity sound quality over the Internet, thanks to the development of powerful software for decoding audio signals.

The software is distributed freely over the Internet, but the listener is asked to register as a user, paying DM75 (£33). The minimum hardware required is an 8-bit sound card and a 486 computer although a Pentium computer and 16-bit sound card will give higher quality.

The developers, Opticom, together with the Fraunhofer Institute for Integrated Circuits, envisage that radio stations and musical events organisers will buy a licence, allowing them to reach music listeners over the Internet.

Fraunhofer Institute for Integrated Circuits: Germany, tel 9131776340; fax 9131776399.

Electric buses take to London streets

A bus fleet powered by electricity and guided by a satellite navigation system is about to be launched in London.

The progress of the 12-seater buses will be monitored using global positioning signal satellites that allow an operator to plot the most efficient route and to change the route to take account of passengers' wishes.

The buses use an electric drive system, developed and supplied by Wavedriver, a joint venture between The Technology Partnership, a research company, and PowerGen, the UK power generator. The batteries, which can run for 50 miles, can be recharged in less than an hour.

The buses have been designed by the Attainable Sustainable Transport & Integration Project, which is part funded by the EU and run by the London Borough of Camden with a number of public- and private-sector organisations including London Electricity and British Gas.

The Technology Partnership: UK, tel (0)1763 262626; fax (0)1763 261582.

The Internet could bring the benefits of virtual reality to industry at last, says **Geoff Nairn**

Awaiting the virtual call

Take the sophisticated 3D visualisation capabilities of virtual reality and put them on the Internet. The result is "collaborative virtual engineering" and it looks likely to revolutionise the way many designers, architects and engineers work.

Virtual reality, after a decade of disappointments, is starting to make inroads into industry. The VR market could be worth $6bn (£3.9bn) in 2000, according to EDS, the US computer services company, but many commercial users are stuck at the research stage.

"VR is still very fragile and so far there is no mass market," says Bob Stone, general manager of UK software house VR Solutions, which since 1993 has led an initiative to promote VR in British industry.

The most enthusiastic VR users are in the motor industry. EDS, formerly part of General Motors, has installed a VR centre in Detroit where designers use computer-generated virtual models to fine-tune designs of cars and other complex products.

The aim is to cut development times and save on expensive physical prototypes. As well as this "virtual prototyping", VR allows production engineers to "walk" down the aisles of unbuilt factories to optimise machine locations. The UK carmaker Land Rover last year used a PC-based VR system from the UK company Superscape VRT to design a new assembly line.

But outside these showcase applications, many potential users still see VR technology as an expensive toy. A high-end VR workstation costs around $100,000 (£65,500) while the expense of developing the application can easily double that figure. Costs are falling, however, thanks to the increasing power of PC-based VR systems. Intel's forthcoming MMX family of microprocessors for PCs will run VR even faster.

The most important factor in bringing VR to a wider audience is the Internet, and the key to running VR in cyberspace is programming language Virtual Reality Markup Language (VRML). This allows complex 3D graphics to be transmitted efficiently over the often slow Internet. With the right browser, users can enter virtual worlds at several sites on the World Wide Web – the Net's graphical section.

A small war has raged in past months as the computer industry fought to define an improved version of VRML. The winner was a consortium led by Silicon Graphics, whose high-powered workstations are favoured by VR developers, and 60 other companies.

Last month, Silicon Graphics and Netscape, the leader in browser software, unveiled browsers to support the new VRML 2.0 standard. The software works on high-end 3D workstations but also on PCs and the forthcoming low-cost network computers.

The trick is in the software, which displays the images in greater or lesser detail depending on the computer's capabilities. "VRML provides a common standard, which is the one thing VR needs for it to become a global communications medium," says Stone. VRML 2.0 is interactive and allows objects to be included in virtual worlds. The objects can be picked up, moved and programmed to behave according to a "script", giving them lifelike properties and reactions.

Silicon Graphics says VRML 2.0 opens up many possibilities for Web page designers, from "cyber cities" to multimedia chat rooms. More prosaic corporate applications include inter-departmental data sharing, 3D database visualisation and shared virtual workplaces.

Nortel, the Canadian telecoms company, is studying VR developments on the Internet. It wants to use VR to visualise the cabling in its exchanges and allow engineers to practise installation procedures.

The project, at Nortel's Harlow UK research centre, uses high-end VR software from the UK company Division to produce VR models of exchanges. Design reviews are performed using the company's internal network and engineers in different offices can interact with the 3D models on their screens.

Nortel has also used the Internet to allow engineers in North America and the UK to collaborate, but those 3D models were less sophisticated. "There are short-term issues, such as network availability, when using the Internet for VR, but there are no insurmountable barriers," says Tony Plant, head of Nortel's VR programme.

Bechtel, the US construction firm, has design teams around the globe. It sees collaborative virtual engineering on the Internet as a potential money-saver, shortening project cycles and cutting travel expenses. Carmakers and other multinationals are also keen to link their scattered design engineers.

"Many of our customers' projects are global with experts often in different places from where they are needed," says David Wheelan, manager of visual systems at Cad-Centre, which develops software for process industries.

Division claims it was first to demonstrate virtual engineering using the Internet to link two users in 1995. Earlier this year, it linked five users in three sites, who were able to interact with each other and with a design for a Formula One racing car.

This latest demonstration used ISDN links because of the unpredictability of today's Internet. "There is probably no one who will do real VR using the standard Internet," says Pierre duPont, Division marketing manager. Instead, companies will use Intranets – private networks based on the same technology as the public Internet – but which are faster and more reliable.

Intricate multi-user VR environments as shown by Division are beyond the capabilities of VRML 2.0 – VRML 2.0 cannot show meshed rotating gears, for example. "For serious engineering applications VRML is not terribly important today," says duPont.

That could soon change. An improved version of VRML is expected next year and Division, which has long led the VR industry with its proprietary software, is having to consider working with others to define an open standard.

Designs on the Internet: collaborative virtual engineering could radically alter the development of the design stage in industry

Design of a 3D puzzle

The Large Hadron Collider will be the world's biggest particle accelerator and the European Laboratory for Particle Physics (Cern) plans to use virtual engineering and the Internet on a similarly grand scale to bring the project in on time and within budget.

The design phase is critical to the success of the collider, whose 10-year construction outside Geneva will start at the beginning of the next decade. More than 300 contractors are designing parts for the massive particle detectors, and the most difficult task is visualising how they will fit together in the limited space.

"It's like a 3D jigsaw puzzle," says David Boyd, head of advanced interactive systems at the UK's Rutherford Appleton laboratory, one of the contractors.

Exchanging computer-aided design (Cad) files by using the Internet is impractical because of their size and the number of contractors. Cern is producing detailed virtual prototypes of the collider, which scientists and engineers around the world can access over the World Wide Web and "fly through" using 3D browser software.

With a video projector and a large screen, groups of users wearing polarised glasses can take part, with one person controlling the flight using a 3D joystick. Alternatively, one designer can don a VR helmet for the classic full-immersion VR experience.

For previous accelerators, Cern built wooden models, but they are inflexible, costly and not always accurate. The virtual prototypes can be generated directly from Cad files, so preserving accuracy, and can be updated quickly.

One day, engineers wearing data gloves may be able to step inside their virtual models and move objects around. But design changes today have to be made by going back to the Cad system. Current VR technology has other limitations, and some feel Cern is perhaps too ambitious.

"VR is a new technology with promise but does it allow us to do a design cheaper or quicker? The jury is still out," says Boyd.

NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows:

1. He proposes to grant a licence under the Telecommunications Act 1984 ("the Act") to Eastern Group Telecoms Limited ("the Licensee") to run telecommunication systems throughout the United Kingdom. The licence will be for a period of 25 years subject to earlier revocation in specified circumstances.
2. The principal effect of the licence will be to enable the Licensee to install and run telecommunication systems throughout the United Kingdom. The Licensee will be able to provide a wide range of services but excluding mobile radio services and certain international services. The licence authorises connection to a wide range of other systems, including earth orbiting apparatus, allowing the provision of some types of international satellite service. On securing a share of 25% or more of the market in respect of particular services in an area specified by the Director General of Telecommunications, the Licensee may be obliged to make available those telecommunication services to all who reasonably request them within that area.
3. The licence will be subject to conditions such that section 8 of the Act will apply to it, thereby making each of the systems run under the licence eligible for designation as a public telecommunication system under Section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensee's systems as a public telecommunication system.
4. The Secretary of State proposes to grant the licence in response to an application from the Licensee for such a licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.
5. He proposes to apply the telecommunications code ("the Code") to the Licensee subject to certain exceptions and conditions throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that the Licensee will have duties:
   (a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;
   (b) to comply with conditions designed to ensure efficiency and economy on the part of the Licensee, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;
   (c) to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
   (d) to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in the licence to its powers under the Code; and
   (e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.
6. The reason why the Secretary of State proposes to apply the Code to the Licensee is that the Licensee will need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under the proposed licence.
7. The reasons why it is proposed that the Code as applied should have effect subject to the exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that the Licensee can meet (and relevant persons can enforce) liabilities arising from the execution of works.
8. Representations or objections may be made in respect of the proposed licence, the application of the Code to the Licensee and the proposed exceptions and conditions referred to above. They should be made in writing by 15 July 1996 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 2.67 Grey, 151 Buckingham Palace Road, London SW1W 9SS. The earlier notice published on 17 May 1996 should be disregarded. Copies of the proposed licence can freely be obtained by writing to the Department or by calling 0171-215 1756.

Alan D Proud
Department of Trade and Industry
13 June 1996

Cinema/**Nigel Andrews**

Passion and comedy surely interwoven

How To Make An American Quilt has a wonderful sense of space and grace. This group portrait of seven women who, in flashbacks re-imagine for us their past lives while sewing away at a giant quilt devoted to the theme "Where love resides", could have ended up as an icky TV movie stuffed with veteran actresses.

It has the veteran actresses – Anne Bancroft, Ellen Burstyn, Jean Simmons, Lois Smith and Maya Angelou (deserting her day job as a poet) – but they cast aside winsome celebrity-flexing for doughty character creation. And visually the interwoven stories, spanning everything from sibling rivalry to *l'amour fou* to sharp-edged love triangles, are lent a rinsed incandescence by Australian director Jocelyn Moorhouse and Polish cameraman Janusz Kaminski (*Schindler's List*).

The airy Californian villa also flutters with the less veteran Kate Nelligan and Alfre Woodard, playing the white and black sides of fortyish romantic wistfulness, while our heroine-narrator is the downright juvenile Winona Ryder. Fresh from *Little Women*, she is a kind of seller's guarantee on this ironic bottle of post-Alcott, post-feminist history-gazing: a film that could be called "Big Women" in its wry before-and-after pictures of generously upholstered oldies recalling younger selves.

All the promise of Moorhouse's first feature *Proof*, that eerie comedy about a blind photographer, is realised here. She has a perfect sense of how to parcel out information teasingly and resonantly, making mystery add to momentum. And she knows how to bring a half-humorous boldness to potentially absurd material: like the flashbacks to Simmons' younger self ravished on an Ingres-style divan by her semi-mad artist lover (to Verdi's Anvil Chorus); or the young Smith's amorous "baptism", rendered literal in a woodland pool that Hedy Lamarr would have been proud of.

The past, of course, *is* another country, mainly because it is ruled by that benevolent dictator, our own recreative imaginations. We applaud the film's quilt-like feat in weaving so gracefully together so many different stories and time-strands together. We applaud even more its sure interstitching of the passionate and the comic, the sublime and the spryly self-aware.

★

In some filmed plays the dramatis personae seem to have been driven forth straight from the theatre into the movie location, dazed and ill-prepared, as if by beaters in a bird shoot.

Jonathan Harvey's play *Beautiful Thing* is, or was, a sweet gay fable about two South London council-block boys who fall in love. But whooshed out of the Bush Theatre into the gunsights of first-time feature director Hettie McDonald, it tends to squawk and flutter before plummeting sharply to earth.

HOW TO MAKE AN AMERICAN QUILT
Jocelyn Moorhouse

BEAUTIFUL THING
Hettie Macdonald

THE CURE
Peter Horton

THE JUROR
Brian Gibson

TWO DEATHS
Nicolas Roeg

THE GROTESQUE
John-Paul Davidson

Only the gently played central duo know how to present themselves to a camera: swottish teenager Jamie (Glen Berry) who falls for good-at-games Ste (Scott Neal) after sharing a bed for neighbourly convenience. While they inject pauses, reactions and feelings, everyone else seems to be auditioning across a crowded room for a Wesker play.

Jamie's strident blonde Mum (Linda Henry) and the black girl next door who worships Mama Cass (Tameka Empson) both come with labels: "salt of the earth" and "pain in the eardrums" respectively. And the mother's jargonising boyfriend has clearly wandered in from a Mike Leigh drama. He earnestly berates her for referring to women as birds with, "D'you have to words like that? It really disempowers you."

Full credit to the story's sexual liberalism and the more delicate scenes of self-realisation. But homosexuality is not empowered, finally, by being presented as a kind of last stand for normal humanity amid a menagerie of caricatures.

The Cure is also about young boys bonding and even has Aids as part of its plotline. But no one strikes gestures or attitudes, except the normal ones you would expect in small-town Minnesota. And neither Dexter (Joseph Mazzello) nor Eric (Brad Renfro), both 11, is gay.

The first is HIV-positive from a blood transfusion and the second, a local hellraiser, defies peer pressure and his own prejudices by befriending him. They defy parents too by striking out down the Mississippi, a modern Huck and Tom, in search of a New Orleans doctor who claims to have a cure.

The movie is a charmer made out of sticks and stones and old rope. Though it ends by dampening your handkerchief, its early humour is dry and wise. The boys' initially distrustful friendship developed through chinks in a ten-foot picket fence; Renfro's father's proud boast that he once sold insurance to Led Zeppelin's guitarist (characterising and carbon-dating him to perfection); the endearing scenes of the boys passionately riffling through doubtful medical books and herbaries, followed by leaf-boiling cook-ups on the river.

★

There are good courtroom thrillers and bad courtroom thrillers and beyond both is *The Juror*. This is so lunatic that it qualifies as some kind of classic. Demi Moore, with brimming eyes and combatively set jaw, is pursued hither and yon across New York State by Mafia persuader Alec Baldwin. He is suavely harassing her between her appearances in court – what ever happened to jury sequestration? – where he wants her to ensure his murder-charged boss's acquittal by voting not guilty.

Otherwise he will kill her and/or her only son. She must also, he unfairly adds at a late stage, make the whole of the rest of the jury vote likewise.

This is all a serious invasion of Moore's time and energy. As she has pointed out earlier to us and the judge, "I'm a single mother and I'm trying to be a sculptor", though we are sceptical that her box-like creations are yet the rage of Manhattan's art galleries. It all ends in tears and chaos in Mexico, where tradition demands that the final shoot-out coincides with a picturesque carnival. By then Moore has been wholly swallowed by her role's absurdities, leaving Baldwin to steal the film as a husky-voiced psycho with bedroom eyes and a permanent beading of sweat.

Two Deaths is a bumpy drive from director Nicolas Roeg, whose last two films failed to reach the chequered flag of public release at all. In strife-torn Romania Dr Michael Gambon and his three dinner guests entertain each other with amorous confessions. Outside, the bombshells of civil war. Inside, other bombshells, such as what Gambon does to and with his mysterious, strickenly beautiful housekeeper Sonja Braga.

Made for the BBC, it plays like a teleplay. Allan Scott's wordy script from Stephen Dobyns' novel *The Two Deaths Of Signora Puccini* tests Roeg's ingenuity with camera movement – he is mostly reduced to aerating the drama with cutaways to street fighting – while only the sour and haunted Gambon suggests a life ticking away under the mounds of dialogue.

The Grotesque, adapted by its own author from Patrick McGrath's neo-gothic novel, is simply batty. Sting plays a butler, Alan Bates plays a country squire, and a snake, poisonous frog and much cod-colonial dialogue ("Remember Zanzibar?"; "Did you have difficulty in Kenya?") play important roles. The director seems to have played no role at all, beyond pointing a camera and hoping for the best.

Post-Alcott, post-feminist history-gazing in a film that could be called 'Big Women'; Winona Ryder as the heroine-narrator in Jocelyn Moorhouse's 'How to Make an American Quilt'

At [illegible] end of her tether

Nervous breakdown, drug addiction, attempted suicide. Public interest in detailed accounts of mental pain and physical degradation has become increasingly lurid. Take Irvine Walsh's best seller, *Trainspotting*, Elizabeth Wurtzel's *Prozac Nation* or Janice Galloway's *The Trick is to Keep Breathing*. The latter is part of a trend for contemporary social realism, a determined effort to de-romanticise Scotland and the Scots by focusing on the ugly realities of cumulative dysfunction. Michael Boyd's stage adaptation of Galloway's book – for Glasgow's Tron Theatre Company – zooms straight into the grief and rage suffered by Joy (Siobhan Redmond) after the death of her lover. Not that it takes long to realise that Joy, a 34-year-old teacher, has quite a few other problems.

Despite its subject matter, the play proved a surprisingly uplifting opener to this year's Barclays New Stages festival at the Royal Court Theatre. Boyd, who also directs this production, allows the tragicomic aspect of Joy's existence to bubble to the surface. Her alcoholic, hormonally-imbalanced sister, Myra, is an ogre of terrifying but amusing proportions; her best friend's mother, Ellen, dangles a plucked chicken over the banister while she chats on the staircase. And by employing a chorus of one or more actors to echo particular moments as recollected by Joy, Boyd effectively turns up the volume on a compendium of restless memories. Likewise, the role of Joy is divided between three women (Jennifer Black, Tracy Wiles and, principally, Redmond) who overlap in a ravishing synthesis of inner voice and physical presence, enhanced by Craig Armstrong's gentle, integrated score.

Alive to her own crumbling psyche, Joy rails against the shrinking, pointless world within which she is imprisoned, her self-pity and anger interrupted by outbursts of perfidious wit. She has stopped going out, panics when the telephone rings, flirts with bulimia and takes to the gin bottle. The doctors who "are paid to say the first thing that comes into their heads" leave her confused, frustrated, full of disdain. The health visitor is so infuriatingly amateurish that Joy is driven to throttle her.

But full restoration of mental health is not the aim. Nor do we believe it possible when watching Redmond's manic-depressive mood-swings, which suggest that Joy's personal tragedy is not so much insurmountable as inescapable. As Joy says, "the more something hurts, the more it can teach you." Flanked by an excellent supporting cast, Redmond gives a virtuoso performance. It is a picture of anguish and torment spilling forth, a sickness immune to the legalised voyeurism of psychiatry.

Sophie Constanti

At the Royal Court Theatre until June 15.

Opera/**Richard Fairman**

A 'Don Carlos' for the 1990s

To open this year's Verdi festival the Royal Opera is facing its biggest challenge. Among all the operas Verdi wrote, there is none that has the same grandeur and breadth, addresses its composer's political and religious beliefs as openly, poses such problems with regard to its text, or demands a cast as strong and dedicated as *Don Carlos*.

To be fair, the Royal Opera does have outside help. This new production is a joint effort with the Théâtre du Châtelet in Paris and opera-houses in Brussels, Nice and Lyon. Between them, they have determined to do Verdi the honour of taking a fresh look at all the issues involved in performing this most complex operatic masterpiece. Tuesday's performance may not have been the most exciting or moving *Don Carlos* in recent memory, but it was wholly enthralling – an event no lover of Verdi would want to miss.

Think back for a moment. In 1958 the Royal Opera put on a production of *Don Carlo* (the Italian version of the opera) that was to be seen as a defining moment in the company's post-war history. Despite being cut, it was Italian grand opera at its most passionate, produced and conducted with native style by Visconti and Giulini, and sung by a cast with big voices and personalities to match – the best the 1950s had to offer.

This new 1996 production is just as much of its time. We know so much more opera now. The opera-going public is keen to explore every note that Verdi wrote and in this production we get entire scenes from earlier versions of the opera which are either different or extra to what we usually hear. As I see it, the more of *Don Carlos* that gets performed, the better – even if today's opera-goers do not have the luxury of trains back to the suburbs in the early hours of the morning, as the Paris audience did in the 1860s.

The performance is also sung in the original French (as the Royal Opera has done once before) and that changes the nature of the opera more than one could imagine. Gone are the Italian bold colours and high-energy intensity. In their place, pervading every aspect of the work, comes a more subtle and complicated French perfume, to which the noses of the producer and conductor must be finely attuned.

This suggests a performance far removed from the standard Italian stand-and-sing, which suits the Swiss producer, Luc Bondy. His production is of the kind that affords many detailed insights while it is fresh, but will soon look dreary if the Royal Opera is planning on bringing it back for revivals. The sets by Gilles Aillaud are variations on a large, grey box. The Yuste monastery is equipped with a stand-alone monk's cell like a grandiose public convenience. The auto da fé on a neat stage of light Scandinavian wood looks like a sauna gone out of control.

Bondy's strengths as a producer are very specific. He is moved by the private scenes, not the public. He is interested in the personal issues, not (unusually for a modern producer) in the intellectual or the political. In the opening scene he captures the innocent courtship of Elisabeth and Don Carlos to perfection, as the young couple flirt playfully – the beginning of a relationship which Bondy typically charts with telling powers of observation, as it moves from private happiness to public anxiety.

He is fortunate to have singers who all look their parts. Karita Mattila's blond Scandinavian beauty has a poise that is perhaps too cool for Elisabeth de Valois, but it is right that she should seem an exile from another land and culture. Her singing, while certainly not Italianate in the traditional Verdian manner, has a marvellous radiance which makes something special of one line after another.

Her duets with Roberto Alagna's Don Carlos are among the highlights of the evening, as both singers have a feeling for the French subtleties of the music. In advance, some people warned that the role would be too heavy for Alagna, who is still young and relatively inexperienced, but he has confounded their predictions by making sure he sings it the right way, which is softly where the music asks for it. Verdi would have been pleased. He did not want his tenor just to bawl.

Martine Dupuy's Eboli is the only one of the principals who did not sing in the production in Paris, which may explain why she is more eager to sell her performance across the footlights than the others. She rose to the occasion with spirit and energy, although her voice is sometimes pushed to deliver what she asks of it. That is a problem Thomas Hampson never has and his ability to fill the long, arching lines of Rodrigue's music with an effortless stream of beautiful tone is probably unequalled today.

As a Philippe II on the international stage since the days of Karajan, José Van Dam must know the murky corners of the king's weak and tortured mind intimately by now. His understanding yields many subtleties of inflection, but Van Dam is not a real bass, which is a drawback, and is short of straightforward power and attack. Kurt Rydl's Grand Inquisitor, bent over with age as well as blind, was fearsomely aggressive. Anna Maria Panzarella was a keen Thibault.

Like each of his singers, Bernard Haitink is also sympathetic to the special atmosphere that is needed. Conducting the Italian *Don Carlo* at Covent Garden before, he was disappointing, lacking drive and energy. Here, working on the French version, he seems newly inspired, drawing from the orchestra playing of Gallic refinement and subtlety, sensuous warmth and a convincing theatrical momentum.

In sum, it is a team effort with no obvious stars, intelligent, thoughtful, occasionally arty, musically very beautiful. It is a *Don Carlos* for the 1990s.

Further performances until July 4, with a live relay on Radio 3 on June 22.

INTERNATIONAL
ARTS GUIDE

■ AMSTERDAM

OPERA
Het Muziektheater
Tel: 31-20-5518117
● Otello: by Verdi. Conducted by Riccardo Chailly and performed by De Nederlandse Opera and the Koninklijk Concertgebouworkest. Soloists include Vladimir Bogachov, Timothy Noble, Charlotte Margiono and Vicente Ombuena; 1.30pm; Jun 16

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Deutsches Symphonie-Orchester: with conductor Marek Janowski and the Rundfunkchor Berlin perform R. Schumann's Scenes from Goethe's Faust. Soloists include Ruth Ziesack, Brigitte Balleys, Vinson Cole, Thomas Quasthoff and Monte Pederson; 8pm; Jun 16
DANCE
Deutsche Oper Berlin
Tel: 49-30-3438401
● Onegin: a choreography by John Cranko to music by Tchaikovsky, performed by the Ballett Deutsche Oper Berlin. Soloists include Camillo, Cullum, Butler and Binder; 7.30pm; Jun 14

■ COLOGNE

OPERA
Opernhaus Tel: 49-221-2218240
● Serse: by Handel. Conducted by Graeme Jenkins and performed by the Oper Köln. Soloists include Jeanne Piland, Brian Asawa, Kathleen Kuhlmann and Alexandra Coku; 7pm; Jun 15

■ COPENHAGEN

EXHIBITION
Nationalmuseet - The National Museum Tel: 45-33 13 44 11
● Sultan, Shah and Great Mughal: exhibition focusing on the religion, history and culture of the world of Islam. The display includes exhibits from Danish museums and collections, together with photographs and illustrations; to Sep 30

■ HAMBURG

DANCE
Hamburgische Staatsoper
Tel: 49-40-351721
● Odyssee: a choreography by John Neumeier to music by George Couroupos, performed by the Ballett Hamburg; 7.30pm; Jun 15
EXHIBITION
Museum für Kunst und Gewerbe
Tel: 49-40-24862732
● Alfred Steffen - Portraits: exhibition of portrait photographs by Alfred Steffen. Many national and international celebrities, including actors, musicians, directors, authors and politicians, have posed for the Hamburg-based photographer in the past 10 years; to Jul 14

■ HELSINKI

CONCERT
Opera House Tel: 358-0-403021
● Orchestra of the Finnish National Opera: with conductor Miguel Gómez-Martinez and violinist Silvia Markovici perform works by Sibelius and Brahms; 7pm; Jun 14

■ HOUSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-713-639-7300
● Jackson Pollock: Works on Paper: exhibition of 34 drawings created between 1939 and 1956 by Jackson Pollock, one of the leaders of Abstract Expressionism. All of the works come from the Pollock estate and provide an insight into Pollock's development in this period. They were executed during the time he was in Jungian analysis and represent a visual diary of his dreams; to Jun 30

■ LONDON

ART & ANTIQUE FAIR
Olympia Tel: 44-171-6033344
● The Fine Art and Antiques Fair: the spring Olympia fair now in its third year, with over 130 dealers from Europe and the US showing contemporary and traditional works, including furniture, porcelain, ceramics and glass, watercolours, oils and old master drawings, clocks and barometers, silver, jewels, enamels, and textiles. The fair is accompanied by an exhibition of some 50 works by the 20th century British artists Francis Bacon and Henry Moore; to Jun 16
CONCERT
Wigmore Hall Tel: 44-171-9352141
● Andrew Wilde: the pianist performs Haydn's Sonata in D, Sonata in G minor and Sonata in E flat; 7.30pm; Jun 14
EXHIBITION
Victoria & Albert Museum
Tel: 44-171-9388500
● William Morris: this exhibition celebrates the life and work of William Morris (1834-1896), designer, artist, poet, visionary and founder of the Arts and Crafts Movement, businessman, publisher, calligrapher and passionate socialist. *The exhibition shows the works and* examines the influence of William Morris in books, textiles, ceramics, furniture, wallpapers and stained glass; to Sep 1
OPERA
London Coliseum
Tel: 44-171-8360111
● Salome: by R. Strauss. Conducted by Andrew Litton and performed by the English National Opera. *Soloists include Kristine* Ciesinski, Robert Hayward and Sally Burgess; 8pm; Jun 14

■ LOS ANGELES

EXHIBITION
The J. Paul Getty Museum
Tel: 1-310-459-7611
● 19th-Century French Drawings: exhibition of 25 drawings by 19th-century French masters from the museum's collection, with examples from Neo-Classicism through Post-Impressionism, including works by Cézanne, Delacroix, Gericault, Ingres, Millet, Manet and Degas; to Aug 25

■ LYON

DANCE
Opéra de Lyon Tel: 33-72 00 45 00
● Lyon Opéra Ballet: perform the choreographies Deserts d'Amour by Dominique Bagouet, La Solitude du Danseur by Jean-Claude Gallotta, and Grossland by Maguy Marin; 8.30pm; Jun 14, 15

■ MUNICH

OPERA
Nationaltheater
Tel: 49-89-21851920
● Cosi fan tutte: by Mozart. *Conducted by Peter Schneider and* performed by the Bayerische Staatsoper. Soloists include Amanda Roocroft, Marilyn Schmiege, Manfred Hemm and Rainer Trost; 7pm; Jun 14, 16

■ NEW YORK

AUCTION
Christies, Manson & Woods *International, Inc.*
Tel: 1-212-546-1000
● Exceptional Motor Cars: a sale held at Lyndhurst Mansion in Tarrytown, New York. The sale features 47 lots, including a private collection from the estate of the late Stephen Condur; 2pm; Jun 15
EXHIBITION
Guggenheim Museum SoHo
Tel: 1-212-423-3840
● *Mediascape*: the Guggenheim Museum SoHo reopens to the public with this exhibition devoted to multimedia and interactive art. It features 14 works by 10 artists, including Marie-Jo Lafontaine, Bruce Nauman, Nam June Paik and Bill Viola; from Jun 14 to Sep 15

■ PARIS

EXHIBITION
Musée Carnavalet
Tel: 33-1 42 72 21 13
● Les Russes à Paris: exhibition focusing on the French view of the Russian community in the 19th century. The exhibits come from Russian and French museum collections and include portraits by Winterhalter, busts by Carpeaux, manuscripts and humorous engravings; to Jun 30

■ STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-88 37 67 67
● Barbara Hendricks: recital by the soprano, accompanied by pianist Roland Pöntinen; 8.30pm; Jun 15

■ WASHINGTON

EXHIBITION
Corcoran Gallery of Art
Tel: 1-202-638-3211
● Space, Time and Memory: Photography and Beyond in Japan: this exhibition is the first examination of the dramatic impact of photography on the Japanese contemporary arts prepared for North American audiences; from Jun 15 to Aug 26

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. *Tel: 31 20 664 6441*

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Peter Martin

Big guy embraces the Net

Microsoft, which is good at winning battles, has responded quickly to attacks from other operators and will see off its rivals for dominance of Internet software

The Internet war will soon be over, and Microsoft will win.

To put that a bit more explicitly: in spite of attempts to use the Internet to undermine it, Microsoft will remain the dominant provider of desktop computer software. It will emerge from the battle with a strong position in network computing too. Far from being a threat to Microsoft, the Internet will prove a wonderful opportunity.

These prophecies might seem rash. The key weapon in the fight against Microsoft – the simple Internet appliance known as the network computer – is not yet even on sale. But the writing is on the wall.

It is there because Microsoft has responded with impressive speed and ferocity to the Internet threat. And the way in which the company has reacted reveals a great deal about the sources of its competitive advantage.

What justifies the argument that Microsoft will win? After all, it is under attack from three sides. First is the threat from Netscape, which has achieved a stunning success in writing software for the World Wide Web, the most significant part of the Internet. Netscape's "browser" software, which allows users to click their way round the Web, is merely one of many similar products. But it established an early and commanding lead.

There is nothing remarkable there: there are several markets where Microsoft has failed to achieve dominance. The Netscape browser's success, however, is important because it offers an alternative way of organising a user's data – making it a direct rival to Microsoft's Windows graphical user interface. And Netscape has made no secret of its desire to extend this rivalry further, ultimately turning its browser into a full-scale operating system, just like Windows. If successful, that would be a threat to Microsoft's core product.

From another direction comes an attack from Sun Microsystems, the most important maker of workstations and servers, which sit above PCs in the computer hierarchy. Sun's new programming language, Java, is particularly suited to distributing programs over the Internet. Because programs written in Java can run on pretty much any system, the language – and the explosive growth of the Internet – threaten to make operating systems much less important as a source of industry influence. As the owner of the dominant PC operating system, Microsoft has most to lose.

That dovetails with the third angle of attack. Oracle, a database software company, proposes a radical reshaping of desktop computing. PCs would be replaced by network computers, cheap but powerful appliances, without local hard disks, that would download their software from the Internet. The software – written in Java – would thus always be up to date, and could be modular, so a user would have exactly the features he or she wanted. Prototypes of the network computer are already available: the product will be on sale later this year. Oracle expects that users will rent the network computer and the necessary Internet access as a package from a telecommunications company for a single monthly fee.

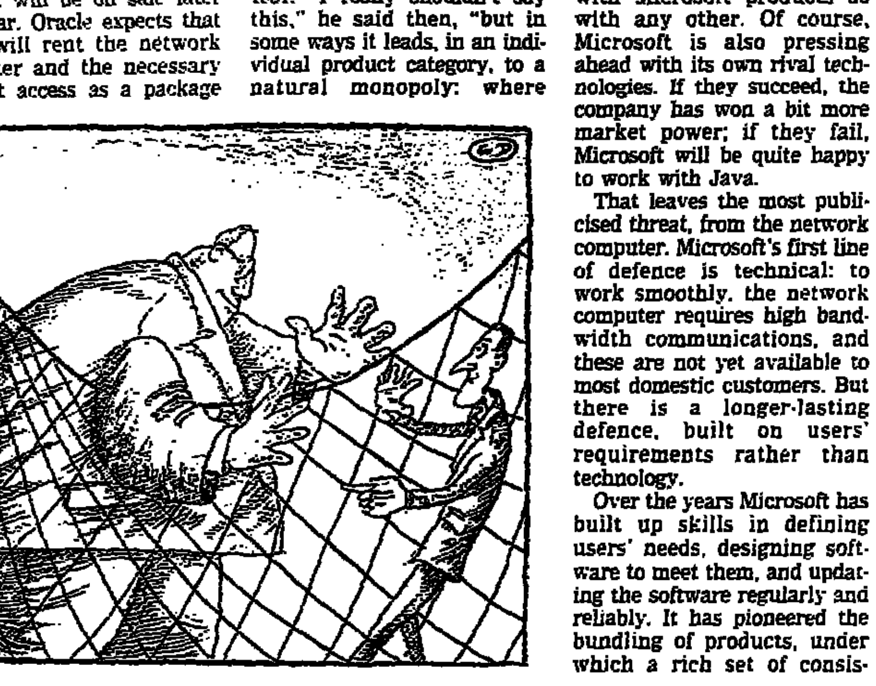
How has Microsoft headed off these threats? Most importantly, it has shifted its attention drastically towards embracing the Internet. The entire weight of the company's resources is now being brought to bear on developing Internet-ready products.

More specifically, Microsoft has launched products to rival Netscape's browser and the server software (used to create Web sites) on which Netscape makes most of its money. Microsoft is giving these away free, limiting Netscape's ability to generate strong profits from these markets. The Microsoft versions are being updated as rapidly as the Netscape ones. Both sides seek to match each other's innovations and add fresh ones of their own. This is a classic "standards battle" in which the two sides seek to establish their own features as the industry standard.

Microsoft is good at winning such battles. Bill Gates, its founder and chairman, set this out as his ambition as early as 1981: "I really shouldn't say this," he said then, "but in some ways it leads, in an individual product category, to a natural monopoly: where somebody properly documents, properly trains, properly promotes a particular package and through momentum, user loyalty, reputation, sales force and prices builds a very strong position with that product."

As part of this battle Microsoft is integrating the browser system with the Windows "desktop", so that the next version of the graphical user interface will have the strengths of both. There will be no need, then, for a separate browser program. Similarly, Microsoft is integrating its Web server software into its industrial-strength operating system, Windows NT. This does not doom Netscape – but it makes it much less of a long-range threat to Windows and Microsoft.

Java is getting the same treatment. By acquiring rights to the language from Sun, Microsoft has ensured that the language will be taken seriously by developers. But it has neutralised the long-term danger. Java no longer threatens to create an alternative to the Microsoft universe; instead, it will be as natural to use it with Microsoft products as with any other. Of course, Microsoft is also pressing ahead with its own rival technologies. If they succeed, the company has won a bit more market power; if they fail, Microsoft will be quite happy to work with Java.



That leaves the most publicised threat, from the network computer. Microsoft's first line of defence is technical: to work smoothly, the network computer requires high bandwidth communications, and these are not yet available to most domestic customers. But there is a longer-lasting defence, built on users' requirements rather than technology.

Over the years Microsoft has built up skills in defining users' needs, designing software to meet them, and updating the software regularly and reliably. It has pioneered the bundling of products, under which a rich set of consistently designed programs – Microsoft Office – is sold for a relatively low price as a single package. Such a bundle of software may be more than any individual user needs, but it is an exceptional bargain.

Existing PC users are unlikely to be willing to sacrifice the breadth of facilities and the predictability of pricing that the bundle provides. New users, of course, especially those who merely want a simple word-processing terminal, may well be happy to use a network computer. But as soon as their needs become more complex, they are likely to graduate to a full-scale PC. And thanks to Microsoft's shift of strategy, this PC's software will be just as fully integrated into the Internet as any network computer. Even if millions of network computers are sold, the bulk of the margin – on both hardware and software – will be in the higher-value end of the market, where Microsoft will remain dominant.

If Microsoft had not reacted speedily to the Internet threat, it might indeed have found its position undermined. The way in which it has responded, however, illustrates some of the company's often misunderstood strengths. First, it remains, in many ways, a one-man company – one in which a single strong leader can dramatically shift the focus of the business with a single decision. Bill Gates remains alert and energetic enough to take such decisions. Second, it is excellent at winning standards battles, and – just as important – at deciding when it is time to throw in the towel and embrace a rival standard. Third, though still run by technologists, it is more consumer-driven than other software companies. And fourth, it is excellent at taking advantage of turning points in the industry. Indeed, the company is founded on such a moment, Bill Gates's flash of recognition, at a newsstand just outside the gates of Harvard, that the personal computer era had begun.

BOOK REVIEW · Ian Davidson

LEGITIME DEFENSE: by Pierre Lellouche
Editions Patrick Banon. 364pp. FFr150

ABOUT TURN, FORWARD MARCH WITH EUROPE: ed Jane M.O. Sharp
Institute for Public Policy Research. Rivers Oram Press. 321pp. £16.95

French volte-face a step on the learning curve

Pierre Lellouche is not just one of France's leading defence policy experts, he is also a close adviser to President Jacques Chirac. Anyone curious to know what the French are thinking about defence issues should read his new book.

Last December, in a reversal of 30 years of Gaullist dogma, Mr Chirac announced he was ending the frostiness between France and Nato and seeking a rapprochement with the western military alliance. And last week in Berlin, Nato ministers finally agreed to give European members a bigger role in organising joint operations.

The two events are of course connected. Mr Chirac made clear that his purpose in seeking a reconciliation with Nato, was to promote the development of a specifically European defence capability. For a generation, France urged the promotion of such a European capability independent of Nato, but without success; the other European countries did not want to know. So now Mr Chirac is pushing for a European defence capability *inside* Nato.

The French volte-face suggests they are learning from experience. And by deciding in Berlin to go ahead with the new Nato concept of Combined Joint Task Forces, allied ministers took what could become a first step towards a more integrated European defence. These task forces would enable European countries to use Nato assets for joint military operations, even when the US did not want to get involved.

For the French, however, the forces are not an end in themselves but a first step in the establishment of a more equal relationship between the Europeans and the Americans in the Atlantic alliance. Exactly what this means in practice, they have not yet spelled out. But according to Lellouche, we ought to expect "a grand French initiative".

He argues that it is necessary to drive forward a double reform, of the alliance and of the European Union, in the defence field. The centrepiece of his programme is the creation of a European security council, which would normally include the five big EU states (France, Germany, Italy, Spain and the UK), as well as small member states which wanted to take part in a particular operation. Next, he wants the creation of a new, mainly European pillar inside Nato to perform out-of-area operations under a European commander.

Third, he proposes the formation of a 250,000-strong European rapid intervention force, with 25,000 from each of the big five. Fourth, he argues that neutrality should no longer be an option for any EU member state since it implies an unacceptable attempt to opt out of the political responsibility of membership, free-riding on the defence efforts of others. But fifth, all this must take place in partnership between Europe and America.

One problem with the book is its ambiguity over the purpose of a European defence capability. At one point Lellouche implies it would help prevent another Yugoslavia on Europe's doorstep; at another, he says it would be for long-range force projection overseas. The one does not, of course, necessarily exclude the other. But other European countries will be much less keen to take part if the real purpose is to help France fight post-colonial wars in Africa.

About Turn, Forward March with Europe tries to do for Britain what *Légitime Défense* tries to do for France: address the new defence imperatives of the post-cold war era. But it is clearer and more persuasive.

Britain's main security interests lie in Europe, it says, and that is where its main security efforts should also lie. In the main opening essay, Michael Clarke, professor of defence studies at King's College, London, says Britain no longer faces any danger of having to fight a war of national survival. In that sense, any military engagements by Britain would be a matter of choice and discretion, questions of peace-making and crisis prevention.

At the same time, however, he argues that its security interests are more deeply and intimately connected with those of its European allies and partners than ever before. And he concludes that all the potential theatres where its European interests could be most at risk lie in and around Europe: the Balkans, the Baltic, central Europe, Ukraine, the Caucasus.

The paradox of his analysis is that trouble in these areas would be less of a direct threat to Britain than to its European partners. In that sense it would have the choice of opting out. But he argues that such an option would be against Britain's long-term interests since the UK is so dependent on its relationships in Europe.

Jane Sharp, editor of the book, puts it succinctly: "The only way Britain is going to influence world events in the future is as a major European power working closely with France and Germany, and dealing with the US as a power committed to Europe."

The contrast between these books speaks volumes about the differences between France and the UK: one passionate, didactic, dogmatic and yet a bit airy-fairy; the other pragmatic and down-to-earth. What a pity the UK government, unlike the French, seems incapable of learning from experience.

Both books are available from FT Bookshop by ringing Free-Call 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'), e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Inward investment best left to regional, not central, agencies

From Mr Lance Knobel.

Sir, Your leader "Bribe or subsidy?" (June 11) is undoubtedly correct in its call for better rules governing incentives for foreign direct investment. But linking such a proposal to a stronger role for the Department of Trade and Industry – and its Invest in Britain Bureau – would have a negative effect on the UK's record for attracting investment.

Much of Britain's success has come about because of the professionalism and innovation of regional and local development agencies. Foreign investment promotion agencies, at both regional and national level, intently study the Welsh Development Agency, the Northern Development Company, Inward and others for lessons in how to do better. The Invest in Britain Bureau, in contrast, is rightly viewed as bureaucratic, slow-moving and sadly amateurish.

Allowing regional and local development agencies to compete for investment within a sensible framework of national and European rules and regulation is the best way to ensure Britain's continued success in the competition for mobile international investment.

Lance Knobel,
managing director,
Corporate Location Magazine,
Nestor House,
Playhouse Yard,
London EC4V 5EX, UK

From Dr Chris Rowley.

Sir, Your editorial "Bribe or subsidy?", was simply wrong in two critical aspects:

● In terms of causality: it argued that Nissan brought a revolution in labour practices, yet changed practices are often given as a reason why Nissan invested in the UK;

● In terms of changes "cheerfully accepted by the employees": research on Nissan, and Japanese transplants in the UK and elsewhere, clearly show that this is not the case.

There is a dark, coercive side to much of the rhetoric in this area. It does a disservice to some of your readers simply to replicate the "myths".

Chris Rowley,
Royal Holloway University of London,
Egham, Surrey, UK

Deal not good for consumer

From Mr Friedrich R. Blase.

Sir, Robert Ayling, chief executive of British Airways, failed to answer (Letters, June 12) the main question posed by Richard Branson, chairman of Virgin Atlantic Airways: what are the reasons for the sudden change of mind concerning anti-trust immunity?

Instead of giving the real reason, Mr Ayling and Robert Crandall, American Airlines' chairman, prefer to eat their words ("A day for eating words?, June 12). Why are they afraid publicly to acknowledge that maximising the corporate profits is their driving motivation.

If they did so, they could show that objecting to the United/Lufthansa immunity and asking for exactly that themselves is coherent. Why do they not admit that they prefer to serve their shareholders than to promote competition for the consumers' benefit.

Their handling of the announcement leaves the impressions that neither Mr Ayling nor Mr Crandall is prepared to stand up for and be measured against their ultimate goal. Hopefully, consumers will vote against such behaviour by choosing those carriers that promote and foster competition, and hand down the advantages to the consumer.

Friedrich R. Blase,
Kapuzinerstrabe 11
48149 Münster,
Germany

Professional bodies strongly advocate introduction of proportional liability in UK

From Mr Graham Allen and others.

Sir, On behalf of the bodies we represent, we welcome the Department of Trade and Industry's initiative, following the publication of the Law Commission's report ("Auditing report reopens call for liability reform", May 21), in seeking views on issues raised by the existing law surrounding professionals' liability, particularly in relation to the law of joint and several liability.

We all share one overriding concern based on a conviction that the present regime is not only unfair but also damaging to economic efficiency, and thus to the interests of the country as a whole. We believe the present law to be flawed in that it does not cater sufficiently for the principle of proportionality at least in the context of "arms'-length" commercial relationships.

The Law Commission concluded that there were no deficiencies in the operation of the present law such as would warrant a full investigation into the possibility of introducing proportionality. This is an issue which should not be viewed solely from a legalistic point, particularly in circumstances where eminent lawyers in these and other jurisdictions hold contrary views. The issues are of central importance and deserve consideration from a broader economic and public policy perspective. The principal conclusion of the Law Commission's report – that a full review of joint and several liability is not justified – should, therefore, be rejected.

There is a need to ensure that legal systems should acknowledge the concept of proportional liability. This is being progressively recognised in all other major jurisdictions. It now predominates in the law of the US, both at federal and state level. More than half the member states of the European Union incorporate proportionality into their law. Commonwealth countries have either introduced the concept of proportionality or are considering whether to do so.

It would be irresponsible of all concerned to dismiss the problems without proper consideration and its present impact on business and society as a whole. We strongly urge the Department of Trade and Industry to set up an advisory committee to take evidence, to consider the issues fully and to advise on the way forward.

Graham Allen, chairman to the investment committee,
National Association of Pension Funds.
Peter Langard, president,
The Chartered Association of Certified Accountants,
Robin Wilson, chairman,
Construction Industry Council,
Martin Laing, chairman,
Construction Industry Employers Council.
G.M. Murray, president,
Faculty of Actuaries and on behalf of the president of Institute of Actuaries,
Brian Birkenhead, chairman,
The Hundred Group of Finance Directors,
Brian Currie, president,
The Institute of Chartered Accountants in England and Wales,
Tom Griffin, deputy president,
Institute of Chartered Accountants in Ireland,
Robert Smith, president,
Institute of Chartered Accountants of Scotland,
G.D.G. Cottam, joint chairman of the advisory panel for legal affairs, Institution of Civil Engineers,
Tim Melville-Ross, director-general, Institute of Directors,
C.J. Farrow, director-general,
London Investment Banking Association,
Paul Shepherd, chairman,
The Building Employers Confederation,
Andrew P.K. Wright,
president, The Royal Incorporation of Architects in Scotland,
Simon Pott, president,
The Royal Institution of Chartered Surveyors,
c/o Institute of Chartered Accountants in England and Wales,
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London EC2P 2BJ, UK

FINANCIAL TIMES

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Thursday June 13 1996

The economic balance sheet

For Mr Kenneth Clarke, the UK's chancellor of the exchequer, yesterday's Mansion House speech was his fourth and very probably his last. He had little new to say, as was true of his colleague in the Ken and Eddie show, the governor of the Bank of England. Inevitably, Mr Clarke, in electioneering mood, claimed that these years were "very good years, years of healthy economic recovery." Was he right? Alas, only up to a point.

The UK is no longer falling behind the economies with which it likes to compare itself. Its rate of inflation is commendably low by historical standards. It has, as Mr Clarke argued, an attractively open economy. All this is perhaps enough to justify a degree of self-congratulation by people in charge of an economy whose relative performance was so poor for most of the past half century.

Mr Eddie George noted that the UK had only just failed to manage a third year in which economic growth was higher than inflation – something that had not been achieved in over 50 years. Inflation is indeed low. All the same, only two members of the group of seven leading industrial countries – the US and Italy – had higher consumer price inflation over the most recent period of 12 months.

Mr Clarke insisted that he neither wanted nor could engineer a "pre-election boom". He also proclaimed that the public sector borrowing requirement would be brought back to balance over the medium term. Maybe so, but the latest annual report from the Bank for International Settlements estimates the UK's structural general government deficit in 1995 at 4.6 per cent of gross domestic product, higher than in any other G7 country, except Italy. As for the growth of broad money over the most recent 12 months, at 10 per cent it has been faster than in all other G7 countries.

Over the four years of the recovery, the annual rate of economic growth has averaged 2.6 per cent. This does not seem too bad. But between the first quarters of 1989 and 1996, the economy has expanded at a rate of only 1.1 per cent. Since it has supposedly been transformed by radical supply-side policies, this is very disappointing. Even if growth were 3 per cent a year over the next several years – as the chancellor's "wise persons" suggested was feasible – it would still average under 2 per cent between 1989 and the end of the century.

Then there is employment. As the chief secretary to the Treasury, William Waldegrave, remarked in a speech on Wednesday, the biggest challenge is that of long-term unemployment. He also commended the "Anglo-Saxon" approach of deregulation and competition as the right solution. By early May, unemployment had fallen to 2.17m, a rate of only 7.7 per cent, well below the average of the European Union. But it is still disturbing that the workforce in employment, at just under 22m in March, was 0.9m lower than in June 1990 and a mere 0.5m higher than at its low point in the most recent cycle.

The risk now is excessive complacency. How far any government can improve the long term performance of the economy is debatable. Loosening the reins on inflation or failing to put the public finances back in order would certainly not help. But even without such errors, there is still much to worry about. The UK is no longer the sick economy of Europe. But it is hardly in the miracle class either.

Shopping hours

After months of procrastination, it looks as if Chancellor Helmut Kohl's ruling Christian Democrats in Germany have finally bitten the bullet: they have agreed to liberalise shopping hours. It is a modest step – allowing shops to open until 8pm on weekdays, and 4pm on Saturday afternoons, a whole two hours later than at present. Bakers will even be allowed to bake bread on Sundays. However, the changes are symbolic. They suggest that perhaps at last Germany is going to practice what it preaches on economic flexibility, competitiveness and risk-taking.

The arcane rules governing the German retail trade have long been seen as a particularly glaring example of excessive regulation and deep-rooted traditionalism in the economy. Consumer convenience has a depressingly low priority, as the language reveals. In English, retail laws refer to shop "opening hours". In German, they are *Ladenschlusszeiten* – shop closing times. And they mean it.

In spite of big changes in working habits, German shopkeepers and shop workers have refused to budge. But the system has begun to crumble in other ways. Petrol stations have been transformed into mini-supermarkets to service travellers, because of a loophole in the law. Railway stations have become full-scale shopping centres open day and night, because of a comparable discrepancy.

The surprising thing is that given such inconvenient hours, Germans manage to consume quite so much. The experts calculate that under more liberal laws, retail turnover might increase 2 per cent or 3 per cent, or some DM20bn. It could mean an extra 50,000 jobs. Given slow growth and high unemployment, that certainly matters. More important, it should mean that at last, the consumer comes first.

National cars

General Motors' freeze on further investment in Indonesia this week has intensified the international campaign of protest against the country's national car policy. Governments and carmakers in the US, Japan and Europe complain the policy's tax and tariff provisions violate World Trade Organisation rules by discriminating against foreign manufacturers. They may well be right. But the critics' indignation might be more convincing if they practised more consistently the free trade principles they preach.

There are particular reasons why the Indonesian car project, infelicitously named Timor, has drawn so much fire. It seems a particularly visible example of Indonesia's notorious tendency to erect new trade barriers while earnestly promising to liberalise. The campaign is also meant as a warning to other developing countries, including Malaysia, Brazil and China, which appear bent on using "infant industry" protection to support the development of car manufacturing.

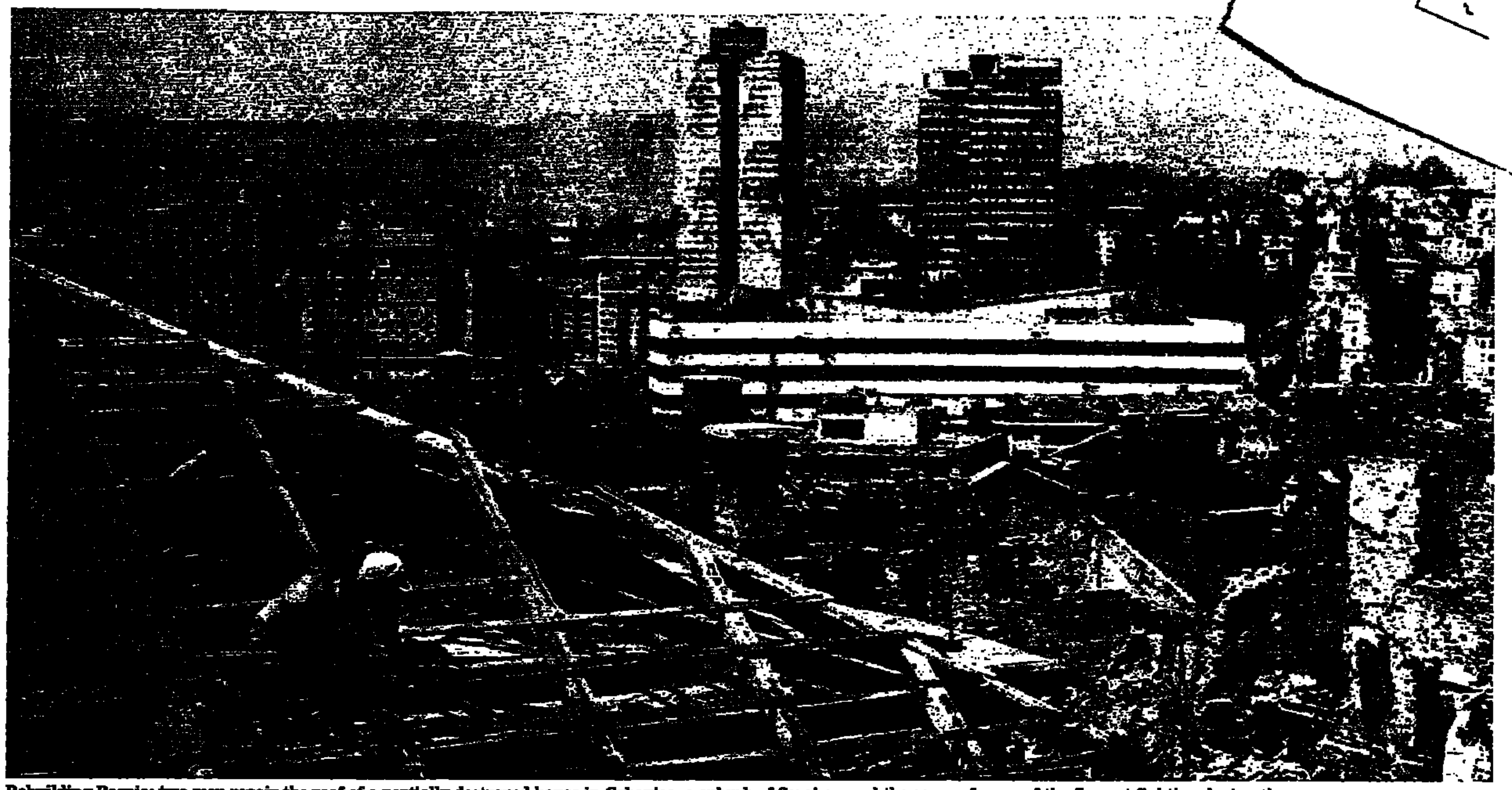
In truth, these economies are following a well-trodden path. Many carmakers in the US, Europe and Japan have been sheltered historically by high trade barriers, as are those in South Korea today. Furthermore, governments have often explicitly favoured national producers. British Leyland and Chrysler would both have collapsed without massive state support.

Times, of course, change. Scope for legal trade restrictions has been steadily narrowed by world trade rules, particularly in the Uruguay Round, which has imposed tighter disciplines than any previous multilateral agreement on developing countries. Yet respect for the spirit – and sometimes the letter – of these rules by industrialised economies has hardly been inspiring.

Egged on by GM and other Detroit carmakers, the US threatened last year to breach basic WTO obligations by slapping discriminatory tariffs on Japanese imports. The EU still discriminates against Japanese car brands, both locally-made and imported, through a dubious quota system. US states, which are exempt from WTO disciplines, have wooed foreign-owned car projects with huge financial incentives. The UK, while strongly condemning state aid, lobbied Brussels tirelessly to approve a £70m subsidy to ensure a new Jaguar saloon was built in Britain, instead of the US.

Indignant lectures from governments which behave in this way are unlikely to impress developing countries planning national car projects. That does not, however, mean that such projects are sensible. Developing home-grown car manufacturers requires the commitment of vast economic resources, with a remote prospect of worthwhile returns. Nowadays, efforts to build vertically-integrated national industries, with a high degree of self-sufficiency, are probably doomed to failure by the trend towards global production networks, increasing specialisation and the need for ever bigger economies of scale.

Countries which genuinely want to generate wealth and jobs should study Thailand's example. By demolishing barriers to trade and investment, it has attracted an influx of foreign-owned plants which has given it south-east Asia's largest car industry. The do-it-yourself approach is only for governments which are preoccupied more with national prestige than with results.



Rebuilding Bosnia: two men repair the roof of a partially destroyed house in Grbavica, a suburb of Sarajevo and the scene of some of the fiercest fighting during the war

The uphill track to recovery

Revival of the Bosnian economy depends on renewed links between regions once at war with each other, says **Anthony Robinson**

The last train to Volkswagen's assembly plant at Vogosca, an industrial suburb in the hills above the Bosnian capital of Sarajevo, set out from Germany four years ago. It is still in Vogosca.

Most of the Serbs who once worked at the multi-ethnic plant are not. They left three months ago as part of a general exodus to Republika Srpska, the Bosnian Serb "entity" which occupies 49 per cent of Bosnia-Hercegovina under November's Dayton peace agreements. Vogosca is part of the remaining 51 per cent in the hands of the Croat and Moslem federation.

But the long line of brown German railway wagons – rusting, and possibly booby-trapped – still blocks the tracks into the abandoned and looted factory which used to assemble Golf cars for sale in Yugoslavia and for export.

Re-starting dozens of such plants and repairing the connecting infrastructure is crucial to Bosnia's economic recovery. The European Union, the US, Japan, Moslem states, the World Bank and other organisations have drawn up reconstruction programmes costing more than $5bn (£3.25bn) over four years. These efforts, to be discussed at a meeting in Florence today, are the biggest and most complicated ever mounted for such a small country.

"But even so, international aid will only cover 5 per cent of the total cost," warns Mr Michael Koch, who runs a World Bank emergency farm aid project. "The rest depends on kick-starting the local economy."

That is going to be a slow and difficult process. It will depend on reintegrating regions that have been at war with each other and which retain separate armies and currencies. It will also depend on foreign investors.

Last week, a delegation of German business executives looked over their wrecked investments. They came to assess what was salvable and whether with peace – or, more accurately, an armed truce enforced by the 60,000-strong Implementation Force (Ifor) – the time has arrived for private investors to come back.

The attitude of German business is particularly important. German companies were by far the biggest investors in former Yugoslavia. Millions of *gastarbeiter* from all the former Yugoslav republics live and work in Germany. Over a third of the more than 1m external refugees from the war in Bosnia found refuge there. Many will only return voluntarily if they have a job and the chance of rebuilding their homes in safety.

Foreign companies such as ABB, the Swiss-Swedish multinational with a growing network of plants throughout former communist Europe, remain cautious. They want to sell equipment for the reconstruction effort but they say that serious investment decisions will have to await the outcome of elections in September.

Such a leisurely game plan is not an option for the World Bank. It is helping to build the financial institutions which should underpin the attempt to create a functioning market economy for Bosnia.

It is no easy task to create a customs and banking system in a former communist country which has suffered an estimated 100,000 deaths, the exodus of over 1m people and the destruction or damage of 65 per cent of its homes. Bosnia also has 650,000 displaced refugees on both sides of the Ifor line which divides the Croat-Moslem Federation and Republika Srpska.

The failure so far of attempts to replace indicted war criminals such as Mr Radovan Karadzic, the leader of Republika Srpska, with more co-operative Bosnian Serbs based in Banja Luka means that the building of common institutions that would include the Bosnian Serbs has hardly begun.

The only economic linkages between the Moslem and Serb entities are those forged between the *mafias* who made fortunes during the war years through smuggling and trade in looted goods.

"The only way to get rid of the mafia is for the international community to help us to get rid of the war criminals who run it," says Mr Hasan Muratovic, prime minister of the Bosnian Moslem government in Sarajevo.

Mr Milan Cvikl, a World Bank economist from Slovenia who combines intimate knowledge of former Yugoslavia with five years of helping Poland's transition to a market economy, welcomes the sweeping away of the hundreds of police and militia checkpoints which hindered freedom of movement and trade.

"Before Ifor swept away all these potential shake-down points, it could take a truck six days to reach Sarajevo from the Croatian port of Rijeka. Now it can be done in a day, and with only one payment to the customs officers on the border between Croatia and the Bosnian Croat and Moslem federation," he says.

An attempt by the World Bank to build a common payments and customs system between the Croatian and Moslem sides of the Bosnian federation also moved forward last month with the establishment of joint Bosnian-Croat and Moslem-manned customs posts, monitored by EU customs officers, on the borders between Croatia proper and the Croat-Moslem Bosnian federation.

At the end of May, the cash-starved federation government in Sarajevo received its first DM35m (£15m) in customs revenue.

The aim is to create a common central bank for Bosnia-Hercegovina and a national currency which would circulate in all parts of the state and be accepted by all its peoples – Serb, Croat and Moslem. That remains a dream. For now the Croatian kuna circulates alongside the D-Mark in western Hercegovina and other Croatian-controlled areas of the federation. The Bosnian dinar is used with the D-mark in Moslem-controlled areas and the Yugoslav dinar, issued in Belgrade, circulates in Republika Srpska.

But the beginnings of a common inter-bank payments system have been laid, even though the clearing of payments between the two sides of the federation takes place with the physical delivery of D-Marks between the Moslem and the Croat-controlled sides of the territory.

The D-Marks are placed in an armoured car that every Friday crosses a rebuilt bridge over the Neretva river. The river marks the effective border between the two communities in the ethnically divided city of Mostar which is under EU administration.

Meanwhile, in an attempt to attract desperately needed foreign capital to boost business and industrial activity, the World Bank last week approved a special Political Risk Guarantee Facility to support the financing of working capital for Bosnian enterprises. This would protect lenders from losses arising from war, civil disturbance or political interference.

The facility will do nothing to resurrect the factories destroyed or badly damaged by the fighting and shelling. But it could provide a lifeline for relatively modern chemical, steel and engineering plants in cities such as Tuzla and Zenica in central Bosnia. They were far enough from the fighting to preserve most of their facilities and housing relatively intact.

Many of these plants were sited in central Bosnia for strategic reasons – the Yugoslav regime under the former communist dictator Tito wanted such industries protected from Russian invasion in the mountainous heart of Yugoslavia – and supplied basic materials to factories in Serbia. Without the resumption of production by the steel, chemical and other heavy industrial plants in the formerly besieged central Bosnian cities or the isolated eastern Bosnian enclave of Gorazde, there will also be little chance of Serbia re-starting its own economy.

Some economists argue that funds should not be wasted on re-opening these large, state-run factories and that resources should be channelled into new, private light industry and services.

But that is not the view of Mr Selim Beslagic, the feisty mayor of Tuzla. A Moslem who negotiated the exodus of the Serb-dominated Yugoslav People's Army in 1992 and retained the multi-ethnic identity of the city, Mr Beslagic does not want Tuzla to become dependent on foreign aid and wants the economy to be revived as quickly as possible.

His priorities are to provide jobs for demobilised soldiers and refugees and to re-start production of goods which he knows are needed by factories in nearby Banja Luka in Republika Srpska and other factories in Serbia and Croatia.

"Tuzla has been a major source of energy, raw materials and products for Serbia since 1945. We also supplied 70 per cent of all the table salt used in the whole of Yugoslavia. We want to re-create those linkages and even attract investors from Serbia," he says.

After four years of war, he is itching for the chance to re-establish commercial ties. "If the Dayton agreements are to be implemented, it will be the economy which defines our future relations with our neighbours."

His pragmatism and optimism offer some comfort to visitors who see not only a landscape of meadows, turquoise rivers and wooded gorges – but also mile after mile of burnt-out houses and gutted villages.

· OBSERVER ·

Turning Japanese

■ As Rupert Murdoch strode into his maiden press conference in Tokyo yesterday, the ceiling was hung with silver stars. A good backdrop for the preview of JSkyB, the multichannel digital TV service that will colour in one of the few parts of the globe not yet enjoying a News Corporation satellite service.

Then a reporter from the Asahi Shimbun, the liberal national daily, stood up. He was shocked, he said, to see that "a certain newspaper" (his rival, the Nikkei) had already splashed with the story. This kind of thing is never done in Japan, he chided Murdoch.

Murdoch moved immediately on to the defensive. He was sorry if he had breached Japanese protocol, he said, but it was all the fault of the aggressive US media, where this sort of thing was the norm. Poor excuse – and unnecessary as exclusives are a feature of the cosy Japanese media scene. But Murdoch, keen to display his sense of Asian values, could hardly rebuff the challenge. JSkyB is not launched for two years – plenty of time for greater displays of sensitivity.

Barclays' broom

■ A word to the wise. If you work for Barclays Bank, and word trickles out that Graeme Hansen is to be your boss, it's time to fasten your seatbelt.

Hansen, a 50-year-old New Zealander, is rapidly gaining a reputation as Barclays' overseas hatchet man. He spent the early 1990s winding down and then selling the bulk of the bank's business in Australia. He has given a repeat performance over the past two years in Canada, first by shrinking Barclays' local assets from over C$3bn ($2.1bn) to C$800m, and, this week, by selling what's left to Hongkong Bank of Canada.

Currently awaiting his next assignment, Hansen is giving nothing away.

"Maybe I've earned my desserts, and I can do a different style of job," he says cryptically.

Rubbed out

■ It could have been Wurst. Eraser, Arnold Schwarzenegger's latest budget-buster movie, cost about $130m to make in the first place, so a few hundred thousand spent on fine tuning is really neither here nor there.

It is certainly cheaper than the explosive lawsuit Warner Bros might have received if it had not sent the final cut back to the special effects studio for a little judicious touching up.

Last week, two weeks before the action film was due out, 84 shots and untold lines of dialogue were adjusted to change the name of Cyrex, a fictional evil computer empire central to the plot, to Cyrez.

Warner made the switch after employees of Cyrix, a real-life chip designer and high-end computer maker, spotted the glitch in Eraser's trailers and reported it to their bosses.

Cyrix, whose only known failing is to be located in Texas, was missed in moviedom's routine check of proper nouns because these things are based on spelling, not pronunciation.

Scanning the screen for Cyrex references, effects specialists tweaked dozens of baseball caps, shirts and computer screens bearing the bothersome logo.

Fixing the soundtrack was less of a hassle, if only because the Austrian-born star always sounds as though his mouth is full of Spaetzle.

Warrior song

■ "We're supposed to be having choir practice here," wailed a would-be vocalist as hundreds of Sydneysiders filed into a University of New South Wales lecture theatre to witness the first public reappearance of Paul Keating since he lost Australia's prime ministership on March 2.

In the event, Keating was surprisingly harmonious, given his old aggressive pitch. His plea for the Asia-Pacific Economic Co-operation forum to go beyond trade issues and become a regionwide security forum was heard with rapt attention. Likewise, Keating's own analysis of the sometimes testy relationship with Dr Matathir, Malaysia's leader.

Only a few old-style flashes showed through – at his own expense.

"You want me to speak again? Most people don't make that mistake twice," he quipped.

And it was charm which finally brought the 1,000-strong audience to its feet: "Thanks," he said, simply, "for being nice to an old warrior."

Won't wash

■ It's not just the likes of Silvio Berlusconi who have been suffering from the attentions of Italy's guardia di finanza, the tax police. The country's launderettes are up in arms because of the amount of paperwork they are suddenly having to complete, according to one of Observer's less regular sources.

Anna, the Italian women's magazine, reports that it is not the washerpeople themselves who are in the direct line of fire. Rather, the tax inspectors are pursuing the restaurant trade, whose returns, in their view, are just so much fiction.

The solution? Count the number of napkins laundered.

The Financial Times

100 years ago

New Zealand Prosperity

Wellington:- Parliament was opened to-day with the usual ceremonies. In his Speech, the Governor said the finances of the colony continued to be sound, and there was a substantial surplus of revenue over expenditure. There was also ground for congratulation in the improved condition of affairs, the general prosperity in all parts of the colony and the rise in the price of staple produce. The revival of gold mining had been a most noteworthy feature. The great mineral wealth of the colony was attracting the attention of capitalists in all parts of the world.

50 years ago

New Head Of U.S. Treasury

Mr. Vinson has now been transferred from the Treasury to the Supreme Court, and has acquired during his relatively brief period of office a reputation for hard bargaining. British negotiators found him much more uncompromising than his predecessor, Mr. Morgenthau. Little is known in London about Mr. Vinson's successor, Mr John Snyder, who has not hitherto taken any active part in international negotiations. Mr. Snyder comes from President Truman's state, Missouri – he is a St.Louis banker.

FINANCIAL TIMES
Thursday June 13 1996

Commitment to prevent renewed fighting

US pledges continued troop support in Bosnia

By Laura Silber in Belgrade and Bruce Clark in London

Mr William Perry, the US defence secretary, said yesterday he would support the continued deployment of US troops in Bosnia next year if they were needed to prevent war from reigniting.

The commitment from a senior member of the US administration came despite widespread expectations that a decision on the continued presence of US ground forces would be delayed until after the US presidential election in November.

Mr Perry, who is due to meet his counterparts from the 15 other members of Nato in Brussels today, said a decision to organise a fresh peacekeeping mission in Bosnia would be taken collectively by the whole alliance.

"If they make that decision, it would be my recommendation that the United States participate in any force that is so designated – including ground troops, including whatever is determined," he told reporters travelling with him on a visit to the former Yugoslav republic of Macedonia.

President Bill Clinton, who faced bitter resistance from Congress when he decided last December to send US ground troops to Bosnia, promised that the mission would last for one year only, to give the parties an opportunity to make peace.

More recently, US officials have acknowledged that a few US troops will be needed early next year because the US-led Implementation Force (Ifor) will not be able to pull all its armour out in time.

But yesterday's comments from Mr Perry were the first admission by the administration that a substantial new force may have to be organised as a successor to Ifor, with US participation.

The defence secretary predicted that Nato, in which the US is easily the most important member, would be reluctant to see its effort to keep peace in Bosnia go to waste.

"Nato will not want simply to give up on the investment they have made," he said.

The British and French governments, which are the main European contributors to Ifor, have said they are unwilling to keep troops on the ground unless Washington also retains its presence.

A White House spokesman said yesterday that Mr Clinton planned to stick with his timetable of basing US peacekeeping troops in Bosnia for "about a year", and was not presently considering any future Nato-led mission.

Mr Perry's remarks came on the eve of meeting in Florence of governments, financial institutions and humanitarian organisations which are involved in implementing the Dayton peace plan in Bosnia.

One of the topics will be whether the peace process is going well enough to certify that Bosnian elections can be held in September.

Diplomats said the Florence meeting might announce a provisional election date, without saying the conditions had definitely been met for a free and fair poll.

Uphill track to recovery, Page 11

S Korea, Japan aim to defrost relations at summit

By William Dawkins in Tokyo and John Burton in Seoul

Japan and South Korea yesterday opened the way for an improvement in what have been frosty relations by announcing they will hold a summit next week.

Mr Ryutaro Hashimoto, Japan's prime minister, will meet South Korean president Kim Young-sam at the Korean resort island of Cheju on June 22 and 23, at Mr Kim's invitation.

They will discuss a range of bilateral issues from food aid to North Korea, to fishing rights and sport. Mr Hashimoto is the first Japanese prime minister to visit South Korea in two years.

The meeting marks a recent change of heart by the South Korean government. It was reluctant to hold a summit because of a host of unresolved territorial and diplomatic problems.

But it relented after Fifa, world football's governing body, announced two weeks ago that the staging of the 2002 World Cup soccer finals was to be shared by the two neighbours.

Mr Hashimoto yesterday said he hoped to "avoid stiffness" and to strike a relationship as frank as that between European Union leaders.

Top of his agenda will be the plight of North Korea, to which both countries have recently pledged aid to combat the food shortage caused by last year's floods.

They are also expected to discuss their latest dispute over fishing rights around a Korean-occupied island group in the Sea of Japan, named Tok-do in Korean and Takeshima in Japanese.

In an attempt to cool the dispute, they have agreed to discuss fishing and territorial rights separately.

Mr Hashimoto will use this opportunity to take account of Seoul's hopes and concerns before he proceeds to the Group of Seven economic summit in Lyons on June 27-29.

The Japanese and South Korean leaders often meet at regional forums, most recently at the Asia-Europe summit in Thailand in March. Formal bilateral gatherings are rare.

Only last October, Mr Kim pulled out of a planned meeting with Mr Tomiichi Murayama, then prime minister, after Mr Murayama implied that Japan's annexation of the Korean peninsula in 1910 was legal. Colonial rule lasted until 1945.

Many Koreans have unhappy memories of that period. Japanese government apologies for the war years are occasionally marred by remarks by Japanese politicians.

Earlier this month, Mr Hashimoto said he would make a formal apology to women, many of them Koreans, forced to work as Japanese army prostitutes during the war.

Germany plans to curb public deficits to meet Emu criteria

By Peter Norman in Bonn

Mr Theo Waigel, Germany's finance minister, yesterday said the federal government and the states should take a firmer grip on their finances to ensure public deficits stay below the Maastricht treaty limit of 3 per cent of gross domestic product.

Outlining controversial plans for a "national stability pact", Mr Waigel said the federal government and states, or Länder, needed a clear set of rules to control the deficit and should be subject to penalties.

He proposed a law giving the federal government additional responsibility for any deficits run up by the state social insurance funds, which pay pensions, healthcare costs and unemployment pay.

The states should in future be responsible for the deficits of the municipalities as well as their own budget balances, he said.

The minister disclosed his plans at a meeting in Bonn of the financial planning council, which brings the federal government, state finance ministers and local authority representatives together to discuss budget issues.

He said he wanted the structure in place to control Germany's deficit by 1998, in time for the planned start of European economic and monetary union in 1999. He said the aim should be to reduce Germany's government deficit in normal economic conditions to 1 per cent of gross domestic product.

Finance ministry forecasts prepared for the meeting showed that the government expects Germany's public deficit to fall below the Maastricht limit of 3 per cent next year, dropping to 1.5 per cent by 2000. The ministry also expects Germany's government debt will exceed the Maastricht limit of 60 per cent of gross domestic product this year and stay above that level for the subsequent four years.

However, Mr Waigel refused to consider accepting any weakening of the Maastricht treaty's convergence criteria and expressed the hope that a pick-up in economic growth would allow Germany to meet the debt criterion and qualify for Emu.

Mr Waigel said the federal and state governments should take equal responsibility for the country's deficit, but he acknowledged this rule could be adapted to help those Länder such as Saarland or Bremen with heavy debts and interest payments.

His proposals will have to be approved by the states and are subject to negotiation. Yesterday Mr Erwin Huber, Bavarian finance minister and a member of Mr Waigel's Christian Social Union, said Mr Waigel's ideas contained "difficult material for discussion". An early agreement is unlikely, partly because of substantial differences among the 16 state finance ministers.

Yesterday the cabinet appointed a 15-man special commission, headed by Mr Waigel, to work out a reform of Germany's income tax system. The aim is to have lower tax rates and a broader tax base from 1999.

Editorial Comment, Page 11
Waigel's finance drive, Page 2

Animal meal exports

Continued from Page 1

the UK Department of Customs and Excise showing that in the years 1985 to 1988, exports of meat and bone meal averaged roughly 10,000 tonnes annually. In 1989, the year after the domestic ban was imposed, exports surged to over 30,000 tonnes.

In 1990, after EU countries banned the import of UK animal-based feed unless it was clearly destined for pigs and poultry, exports fell back sharply to roughly 17,000 tonnes, although exports rose again the following year to about 22,000 tonnes.

Meanwhile, the EU Commission yesterday called on the UK to extend its plans for selectively slaughtering cattle most at risk of contracting BSE to include many more animals.

THE LEX COLUMN

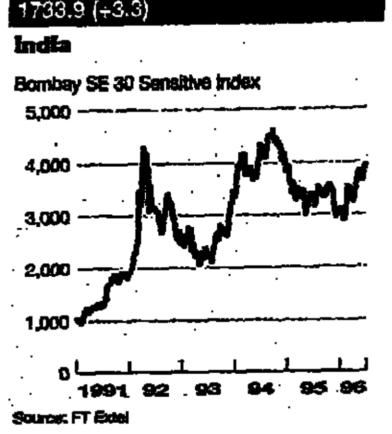
Indian summer

Yesterday's vote of confidence in India's new government should dispel some of the political clouds, allowing the country's strong economic fundamentals to shine through. Gross domestic product is growing at 6 per cent for the third year in a row and inflation has been squeezed down to an annual rate of 4 per cent – a six-year low. The odds are now on a further easing of monetary policy and there is a good historic correlation between falling interest rates and a rising stock market.

Equities have taken the political uncertainty of the past two months in their stride, with the Bombay market up by almost 25 per cent so far in 1996. But given the strong growth in corporate earnings, an average rating of 12 times next year's earnings does not look high, especially compared with the tiger economies in Asia which are trading on closer to 20 times.

FT-SE Eurotrack 200: 1733.9 (+3.3)

India



Source: FT Extel

Some worries remain, of course. India's budget deficit is already running at nearly 6 per cent of gross domestic product, and the United Front's left-of-centre government may well find itself under pressure to spend beyond its means. There is also no doubt that India's primitive infrastructure, particularly its inadequate roads, ports and electricity supply, is constraining growth. But even if the government fails to tackle those long-term issues, it looks certain to continue the slow but steady opening of the economy, including privatisation, reduction of import tariffs and deregulation of the sprawling public sector. Given the consensus surrounding those basic reforms, India should attract plenty of visitors this summer.

Hongkong Telecom

Hongkong Telecom and its UK parent Cable and Wireless are suffering from a debilitating bout of Chinese whispers. First there was the sale of one-fifth of Citic Pacific's 10 per cent stake in Hongkong Telecom. This raised concerns that the company was not only losing support from a powerful Chinese ally but that Citic would sell out entirely. And now it appears that Hong Kong's government is considering curtailing Hongkong Telecom's monopoly on international telephone calls, which lasts up to 2006. Since international tariffs are the mainstay of profits, this could have negative consequences.

Such concerns look overdone. Citic Pacific is being portrayed as China Inc, when it is just a particularly well-connected Hong Kong-based investment company. The disposal does not demonstrate Chinese wrath. Indeed, if Citic sold shares to the Ministry of Post and Telecommunications or another state company, it would be great news for Hongkong Telecom, facilitating any push into the appetisingly backward Chinese telecoms market.

Meanwhile, any shortening of the international monopoly must be done with the approval of Hongkong Telecom. Singapore Telecom recently gave up seven years of its monopoly for US$1bn, and Hong Kong is a bigger telecoms market. Of course, a liberalised Singapore threatens Hong Kong's position as a regional telecoms hub, so it makes some sense to accelerate competition. But since the telecoms regulator has just approved Hongkong Telecom's licence, there should be a lot of compensation – which could conveniently help to fund C&W's ambitions to forge a global telecoms super-carrier.

JSkyB

Mr Rupert Murdoch's News Corporation is adding another leg to a satellite television empire already more ambitious in its scope than any of its competitors with the launch in Japan of JSkyB, a multi-channel digital satellite broadcasting service, in the next two years. Geographically, Mr Murdoch is undoubtedly ahead of the field, but his timing has been a little out. JSkyB will be the third entrant in the Japanese market: PerfecTV, a home-grown joint venture, will roll out 70 channels in the autumn, and DirecTV, controlled by Hughes Aircraft of the US, will arrive next year. If one of these can establish a strong franchise before JSkyB's arrival, it may prove hard to dislodge.

That said, the scale of Mr Murdoch's media empire does give him certain natural advantages. One key to success in pay-per-view and subscription TV is securing the rights of top films and sporting events: clearly, the more subscribers you have the further you can spread costs and the greater your buying power. But size is not everything, as Mr Murdoch has found to his cost in the past. Star TV in Asia initially missed its mark in some countries by failing to tailor its products to local requirements. Such mistakes can leave plenty of room for a savvy local company to clean up.

Japan is an attractive market: the Japanese are avid consumers of the latest sophisticated technology. But Mr Murdoch, despite being well acquainted with the advantages of gaining early market dominance, is going to have to work hard as a scene-stealing late arrival.

Granada

It seems Granada can do no wrong. Fresh from its victory in the hostile £3.9bn battle for hotel group Forte, Granada yesterday demonstrated that not only has it timed the hotel cycle perfectly but its existing businesses continue to thrive. Computer and workwear rentals aside, cash flow and profits growth from all businesses are impressive – and the former two subsidiaries look obvious candidates for disposal. Granada is now the third best performing stock in the FT-SE 100 this year, and the reputation of Mr Gerry Robinson, chairman, as an astute deal-maker is assured.

This looks a classic platform for management hubris and thence violent retribution. However, it is easy to see how Granada can continue ploughing a profitable furrow for investors. Its shares currently trade at a 12 per cent premium to the market based on current earnings forecasts, after stripping out its BSkyB stake. This is hardly aggressive for a fast-growing business. And when Granada sells out its £940m portfolio of exclusive hotels, it should boost profits by over £30m a year. This would push up forecasts, and therefore the shares.

Furthermore, next year will probably herald a review of a possible demerger of the TV business. The group's balance sheet will by then be rebuilt from hotel sales. A likely Yorkshire Television takeover should be getting absorbed, and both Yorkshire and GMTV will be negotiating a cut in payments to the government. All this would be music to stock market ears. And it would also play the useful role of preventing the Management from going a deal too far.

Lex comment on BAA, Page 17

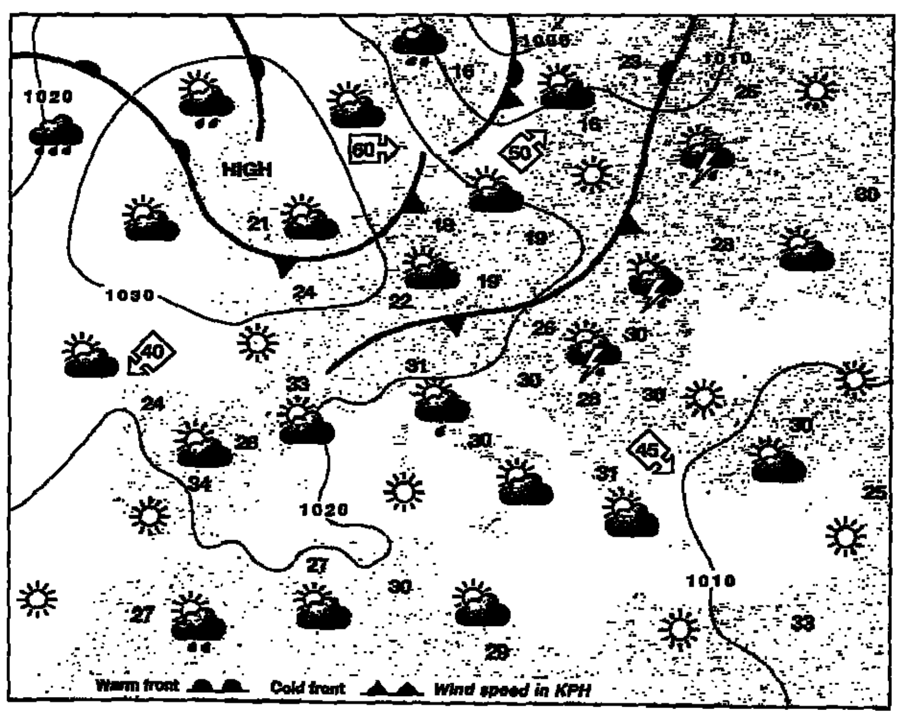
FT WEATHER GUIDE

Europe today

Western Scandinavia will remain overcast and rainy. Strong winds will prevail along the south coast. The British Isles and the Benelux will be sunny but cooler air from the north will result in afternoon temperatures below 20C. France and southern Spain will be hot and sunny. Germany and Poland will have sunshine but cool air will flow into these regions. Thunder showers will develop over the Balkans, Romania and Ukraine. South-eastern Europe will be sunny with temperatures around 30C.

Five-day forecast

Thunder showers will weaken as they move slowly eastward over Russia and the western Black Sea coast. High pressure will influence the UK and the western parts of the continent producing dry and sunny conditions. Central Europe will become warmer with dry air and frequent sunshine.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	32	Caracas	thund	31	Faro	sun	28	Madrid	fair	34	Rangoon	fair	34
	Celsius		Belfast	fair	18	Cardiff	sun	19	Frankfurt	fair	23	Majorca	sun	29	Reykjavik	cloudy	12
Abu Dhabi	cloudy	38	Belgrade	thund	28	Casablanca	fair	27	Geneva	fair	27	Malta	sun	31	Rio	fair	30
Accra	thund	29	Berlin	fair	18	Chicago	cloudy	29	Gibraltar	sun	25	Manchester	fair	18	Rome	fair	30
Algiers	fair	27	Bermuda	fair	28	Cologne	cloudy	20	Glasgow	fair	17	Manila	thund	35	S. Frsco	sun	24
Amsterdam	fair	17	Bogota	thund	18	Dakar	fair	28	Hamburg	cloudy	17	Melbourne	fair	14	Seoul	cloudy	27
Athens	sun	31	Bombay	thund	33	Dallas	fair	35	Helsinki	cloudy	15	Mexico City	thund	28	Singapore	shower	31
Atlanta	fair	34	Brussels	fair	19	Delhi	sun	29	Hong Kong	fair	32	Miami	thund	31	Stockholm	rain	16
B. Aires	shower	14	Budapest	thund	26	Dubai	cloudy	37	Honolulu	fair	31	Milan	fair	31	Strasbourg	fair	24
B.ham	sun	19	C.hagen	fair	16	Dublin	fair	19	Istanbul	sun	27	Montreal	thund	26	Sydney	fair	15
Bangkok	thund	36	Cairo	sun	36	Dubrovnik	fair	30	Jakarta	thund	30	Moscow	shower	26	Tangier	fair	30
Barcelona	sun	28	Cape Town	windy	20	Edinburgh	fair	18	Jersey	sun	21	Munich	shower	20	Tel Aviv	fair	29
									Karachi	fair	38	Nairobi	thund	23	Tokyo	rain	25
									Kuwait	sun	45	Naples	sun	30	Toronto	shower	25
									L. Angeles	fair	24	Nassau	thund	29	Vancouver	fair	19
									Las Palmas	fair	26	New York	shower	30	Venice	fair	30
									Lima	cloudy	18	Nice	fair	25	Vienna	cloudy	24
									Lisbon	sun	31	Nicosia	sun	35	Warsaw	sun	19
									London	fair	21	Oslo	fair	20	Washington	cloudy	32
									Lux.bourg	fair	22	Paris	sun	24	Wellington	cloudy	10
									Lyon	fair	26	Perth	sun	21	Winnipeg	sun	26
									Madeira	fair	25	Prague	fair	19	Zurich	fair	23